



REPORT
OF
THE OIL PRICES COMMITTEE

OCTOBER, 1969

सत्यमेव जयते

GOVERNMENT OF INDIA
MINISTRY OF PETROLEUM AND CHEMICALS AND
MINES AND METALS
DEPARTMENT OF PETROLEUM

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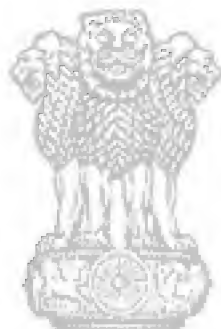
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CHAPTER ONE

Introduction

1.1 The Government of India, by the Ministry of Petroleum & Chemicals' Resolution No. 101(22)/68-PPD dated the 14th June, 1968 (*vide* Appendix I), appointed a Committee consisting of the following members to determine the future ceiling selling prices ex-companies' storage points of various petroleum products in India :

(i) Shri Shantilal H. Shah, Member, Lok Sabha .	Chairman
(ii) Shri B. N. Adarkar, Deputy Governor, Reserve Bank of India.	Member
(iii) Dr. B. Natarajan, Dy. Director General, National Council of Applied Economic Research.	Do.
(iv) Shri N. Krishnan, Chief Cost Accounts Officer, Ministry of Finance.	Do.

Terms of Reference

1.2 The terms of reference of the Committee as enunciated in the Government Resolution setting up the Committee and the subsequent amendments thereto called for examination and report upon the

- (i) the determination of the ex-refinery prices of refined petroleum products, including bitumens, produced by the refineries, whether on the basis of import parity as hitherto or by the adoption of the cost of production as the basis, or in any other appropriate manner, with due regard to the Government assurances having a bearing on the subject ;
- (ii) with reference to (i), the feasibility of introducing uniform prices all-India or on a regional basis ;
- (iii) the determination of landed prices in respect of similar products which may be imported ;
- (iv) the feasibility of making all refineries (including the inland refineries) as the pricing points and the measures to be adopted to ensure that interests of the inland refineries are not adversely affected in consequence of the adoption of such a principle, regard, in this connection, being had to the basis of pricing indigenous crude ;
- (v) the determination of marketing and distribution charges and profit on the marketing operations and their allocation to the products mentioned in (i) and (iii) above, due account being taken also of the experience of the IOC in this behalf ;
- (vi) the determination of the ceiling selling prices in respect of lubricating oils, greases and specialities and in particular, (a) the pricing of lube base stocks produced/to be produced in India either from indigenous or imported crude, and (b) the pricing of mineral turpentine oil ;

- (vii) the determination of the rates of dealers' commission in respect of motor spirit and high-speed diesel oil, with due regard to the representation of the Federation of All India Petroleum Traders; and
- (viii) the determination of the rates of commission in respect of kerosene to agents, dealers and retailers taking into account the losses/expenses incurred by them on account of leakage, handling charges, godown rent, establishment charges etc. with due regard to the views of the State Governments and other interests.

At its first meeting the Committee felt doubtful whether in terms of paras (i) and (iv), when read together, it should go into the cost of crude oil, imported or indigenous, and accordingly sought clarification from the Government on this point. The Government replied that as it was separately considering the question of constituting a full-fledged enquiry into the price of indigenous crude, it was not necessary for the Committee to do so, but its recommendations on the cost of imported crude oil would be welcomed.*

Subsequently, item (viii) above was added to the Committee's terms of reference. While recognizing the difficulty of collecting reliable field data, the Government suggested that the Committee might report on this subject after consultation with the oil companies and the State Governments.

Term of the Committee

1.3 The initial Government Resolution required the Committee to submit its report by the 31st December, 1968, or as soon as possible thereafter. This period was, however, found inadequate and was extended upto the 31st October, 1969. Further, it was agreed that items (a) and (b) of sub-para (vi), having been added to the terms of reference in May, 1969, could be covered by a supplementary report to be submitted by the 31st January, 1970.

Method of Enquiry

1.4 Detailed questionnaires were issued in July, 1968, to all the oil refining and marketing companies, the Ministry and to companies dealing with a substantial volume of lubricants, greases and specialities, etc. Most of the replies were received by April, 1969. It was also considered necessary to consult various organizations and parties likely to be affected by the introduction of uniform prices on an all-India or a regional basis. Therefore, a separate questionnaire on this subject was issued to the Ministries concerned, the State Transport Undertakings, automobile associations, a cross-section of the associations of manufacturers and Chambers of Commerce. The All India Motor Union's Congress was requested to ascertain views on this subject of private operators of trucks, lorries and passenger buses representing different zones in the country. On the feasibility of making the inland refineries and the main ports as the pricing points, the views were specifically invited of the State Governments in which the inland refineries are situated, viz., Assam, Bihar and Gujarat. A questionnaire

*Ministry's letter dated the 17th July, 1968. See Appendix IA.

was issued to the Federation of All India Petroleum Traders on the question of the dealers' commission in respect of motor spirit and HSD. Regarding the rates of commission in respect of kerosene to agents, dealers and retailers, the views of all State Governments were invited by a questionnaire. A list of the parties to whom the different questionnaires were issued and those who replied is given in Appendix II. A classified distribution of such parties is indicated below :

	No. of parties to whom ques- tionnaire was issued	No. of parties who replied to the question- naire
Oil companies in the private and public sector	11	11
Companies dealing with lubricants, greases etc. other than (1) above.	8	5
Ministries of the Central Government	8	7
State Governments/Union Territories regarding kero- sene commission.	27	18
State Transport Departments	17	Nil
State Transport Undertakings	31	4
Automobile Associations and their Federation	5	2
Chambers of Commerce	5	1
Association of Industries and Trade etc.	16	5
Bulk consumers of Naphtha and their Associations . .	9	6

1.5 The Committee visited the refineries at Bombay, Cochin, Digboi, Gauhati, Koyali, Madras and Visakhapatnam and the oilfields in Duliajan and held discussions with their management. It held discussions in New Delhi in April and May, 1969, with the representatives of Burmah Shell Oil Storage and Distributing Co. of India Ltd. (Burmah-Shell/BSM), Burmah-Shell Refineries (BSR), Esso Standard Eastern Inc. (Esso), Esso Standard Refining Co. of India Ltd. (ESRC), Caltex (India) Ltd. (Caltex) and Caltex Oil Refining (India) Ltd. (CORIL), Indian Oil Corporation Ltd. (IOC), on the issues arising out of the replies furnished by them to the various questionnaires. Discussions were held with Shri B. Mukerji, Secretary to the Government of India, Ministry of Petroleum and Chemicals and Mines and Metals (Department of Petroleum and Chemicals) and his colleagues on the various aspects of the terms of reference and also with the representatives of the Government of Assam and Gujarat and some of the industries situated near Gauhati on the points raised in the memoranda submitted by them to this Committee. The Committee also held discussion with the representatives of the Federation of All India Petroleum Traders regarding the rates of commission on motor spirit and high speed diesel oil. Names of organisations and individuals who tendered evidence before the Committee are given in Appendix III.

1.6 The relevant cost data relating to the refining and marketing companies were examined by the officers of the Cost Accounts Branch of the Ministry of Finance under the direction of Shri S. V. Rajan, Senior Cost Accounts Officer, Ministry of Finance.

CHAPTER TWO

Implementation of the Report of the Working Group on Oil Prices (WGOP)

2.1 The Government of India had appointed a Working Group on Oil Prices (WGOP) on the 12th May, 1964, which submitted its report on the 18th August, 1965, and, recommended continuance of the pricing of products on the principle of import parity with a higher range of discounts off f.o.b. postings of products. This Group also suggested higher rates of discounts on imports of crude oil.

2.2 The recommendations of the Working Group were implemented from the 1st February, 1966, with the modifications set out in the Government of India Resolution No. 101(26)/65-PPD dated the 1st February, 1966, which provided for the following variations from the report of the Working Group :

- (a) A protective import duty of 20 per cent *ad valorem* was imposed on crude oil.
- (b) The price of indigenous crude payable to the producer should not be less than the landed cost (exclusive of import duty, if any) calculated on the basis of the full posted f.o.b. prices (i.e. without discounts) of analogous crudes imported from the Middle East.
- (c) Ex-refinery prices of bulk refined products in the case of all refineries in the country and landed prices, when applicable, were on the basis of 'import parity', starting from full (i.e. undiscounted) f.o.b. postings at Abadan at the lowest of Platt's as on the 18th May, 1965.
- (d) No variations from the postings as on that date were to be allowed except when Government was satisfied that a change was justified. Variations in marine freight in relation to INTASCALE with AFRA, as in force on the 18th May, 1965, were conceded.
- (e) The requirement of working capital was re-calculated (with due regard to the rates of Central duties of excise and customs and wharfage in force on the 1st December, 1965) at 1/6th of the annual value of sales instead of 1/5th adopted by the Working Group.

The decision at (c) was taken to compensate the oil companies for the effect of the decisions at (a) and (b) on the economics of the refineries.

2.3 The reductions in prices arising from the implementation of the aforesaid arrangements were mopped up by levy of additional (non-recoverable) duties under the Mineral Products (Additional Duties of Excise & Customs) Act, 1958 (No. 27 of 1958).

2.4 The devaluation of the rupee on the 6th June, 1966, affected the refineries in two ways; on the one hand, the cost of imported crude and the cost of imported chemicals and other stores (as well as indigenous

crude, since its price was related to import parity) went up; on the other hand, the refineries became entitled to an increase in the netback on products on the principle of import parity. To the extent that the increase in the netback was not matched by the increase in cost, it constituted an adventitious gain which had to be mopped up. Government took the following measures. In the first place, the protective duty of 20 per cent *ad valorem* on imported crude was withdrawn. Secondly, in view of the higher import parity for prices of products, the basic duties were reduced so as to provide a correspondingly higher netback to the refineries. Thirdly, since despite the net increase in the cost of crude (after allowing for the withdrawal of the protective duty), chemicals and stores, the higher netback due to the reduction in the basic duties would have resulted in an adventitious gain to the refineries, additional (non-recoverable) duties were imposed to mop up such gains. These various measures were intended to have the net result of leaving the economics of the refineries unaffected by devaluation. The basic ceiling selling prices of the major products were also maintained at the pre-devaluation levels. The variations in the rates of basic and additional (non-recoverable) duties initially made from the 6th June, 1966, on a provisional basis were subsequently adjusted in November/December, 1966, on recalculation of the effect of devaluation on the economics of Burmah-Shell, Esso and Caltex refineries from the data furnished by them.

2.5 On the basis of the estimate of all-India demand then available, the Working Group had estimated the sales of the three private oil companies, viz., Burmah-Shell, Esso and Caltex, during the years 1966 to 1968 at an average of 11.13 million Kls. per annum excluding boiler fuel, hot heavy stock, low sulphur fuel oil, naphtha, liquid petroleum gas, chemicals, paraffin wax and aromax. The unit incidence of marketing/distribution charges and profit on bulk refined petroleum products, bitumens, lubricating oils, greases and specialities was calculated on the aforesaid sales volume. The actual sales of these companies turned out to be lower, viz. 8.28 and 8.12 million Kls in 1966 and 1967, respectively. The shortfall was due to a decline in the share of imports of these companies, and their refusal to distribute imports made from rupee sources and the overall demand was also lower owing to recession in industrial activity. Some relief was considered due to the marketing companies on the latter ground and accordingly the rates of additional (non-recoverable) duties were scaled down from the 7th March, 1967, and *ad hoc* increases were allowed from the 3rd March, 1967, in the selling prices of special products, viz., naphtha and refinery gas (Rs. 20/MT), jute batching oil, mineral turpentine, solvents, SBP spirits and hexane (Rs. 35.00 per selling unit-Kl/MT). Owing to the recovery registered in the volume of sales in the subsequent year, the *ad hoc* increases in selling prices were withdrawn with effect from the 25th July, 1969, and relief in the rates of additional duties provided from the 7th March, 1967, was also withdrawn from the 30th August, 1969.

2.6 Another significant development was that the loading point was changed by the major international oil companies from Abadan to Bandar Mah Shahr in respect of bulk products in April, 1967, and in respect of white products in September, 1967. As the import parity prices were determined in relation to the most economical source in the Middle East, the ex-refinery prices were revised with effect from the 11th September, 1967, on the basis of the lowest of Platt's prices as on the 25th July, 1967, at Bandar Mah Shahr for all major bulk refined products except for bitumens for which Abadan continued to be the basis.

2.7 The ceiling selling prices to the consumers on these products remained unaltered except for variations in the cost of containers for bitumens, kerosene etc. and for variations in statutory charges, such as, basic (recoverable) duties, wharfage, etc. There was also a marginal increase in the ceiling selling prices to the consumers of bitumens from the 16th December, 1966 since the reduction in the basic duty rate effected after devaluation had not provided an adequate netback to the refineries on this product. The ceiling selling prices of bulk refined products and bitumens were also increased with effect from the 1st May, 1968, at varying rates for different products, to take into account the increase in marine freight from the 15th July, 1967, following the closure of the Suez Canal.

2.8 The bulk of the requirements of lubricating oils and greases have to be met from imports either in finished form or in the form of base oils which are further processed. In order to allow for increase in the cost of imported material as a result of the devaluation of the rupee, the basic selling prices, exclusive of State and local taxes, of high grade lubricants and greases were allowed to be increased with effect from the 1st July, 1966, by 18 Paise per litre and other grades of lubricants and greases by 11 Paise per litre. With the closure of the Suez Canal, shipments of these products from overseas had to be diverted via the Cape of Good Hope resulting in the imposition of a diversion charge by carriers. Taking into account the diversion charge and the impact of custom duties on the additional marine freight, the selling price of this class of products were allowed to be further increased from the 17th August, 1967, by 3 Paise per litre for locally processed lubricating oils and 2 Paise per kg. for locally processed greases (both high and low grades). 9 Paise per litre for transformer oils, 10 Paise per litre for other imported lubricating oils (including aviation oils and specialties) and 15 Paise per kg. of imported greases (including aviation greases and specialties). These products are covered by a system of Block Control on marketing/distribution charges and profit. The accounts of the private oil companies forming the basis of pricing, viz., Burmah Shell, Esso and Caltex, as certified by their auditors, up to 31st December, 1967, showed substantial over-recoveries in the controlled items of cost. Consequently, additional (non-recoverable) duties have been levied on this category of products at increased rates contained in the Central Excise Notification No. 35/68 dated the 1st March, 1968, to mop up the cumulative over-recoveries upto the 31st December, 1967, in about 2 years. This levy also falls on all other sellers of these products and is absorbed by them; the selling prices to the consumers remaining unaltered. The increases in selling prices allowed from the 1st July, 1966, and the 17th August, 1967, resulted in an adventitious gain to the Assam Oil Co. Ltd., Digboi on sales of certain products produced by them wholly from indigenous crude and this was mopped up by levy of additional (non-recoverable) duties.

CHAPTER THREE

Structure and Working of the Oil Companies

3.1 There are six oil marketing and distributing companies and nine refineries in operation in the country, with one more refinery under construction at Haldia. These are :—

(A) Marketing/Distribution Companies :

Private Sector :

- (i) Burmah-Shell Oil Storage and Distributing Co. of India Ltd., Bombay (BSM).
- (ii) Esso Standard Eastern Inc., Bombay (Esso).
- (iii) Caltex (India) Ltd., Bombay (Caltex).
- (iv) Assam Oil Co. Ltd., Digboi (AOC).
- (v) Indo-Burma Petroleum Co. Ltd., Calcutta (IBP).

Public Sector :

- (vi) Indian Oil Corporation Ltd., Bombay (IOC).

(B) Refineries :

Private Sector :

- (i) Burmah-Shell Refineries Ltd., Bombay (BSR).
- (ii) Esso Standard Refining Co. of India Ltd., Bombay (ESRC).
- (iii) Caltex Oil Refining (India) Ltd., Bombay (CORIL). (Refinery at Visakhapatnam).
- (iv) Assam Oil Co. Ltd., Digboi (AOC).

Public Sector :

- | | |
|---|---|
| (v) Gauhati (Assam) | } Owned by the Indian Oil Corporation Ltd., Bombay (IOC). |
| (vi) Barauni (Bihar) | |
| (vii) Koyali (Gujarat) | |
| (viii) Haldia (West Bengal)—Under Construction. | |

In Collaboration :-

- (ix) Cochin Refineries Ltd., Cochin (CRL).
- (x) Madras Refineries Ltd., Madras (MRL).

The volume of petroleum products marketed by IBP being too small and MRL not having been on stream for a full year at the time of investigation, the working results of these two companies were not examined.

3.2 In the following paragraphs, we have analysed the trading results of the oil companies on the basis of their published accounts. However, in view of the fact that the foreign oil companies operating in India are integrated as subsidiaries or associates with their 'majors', the accounts of their trading results in India may not completely reflect the profitability of their operations in India. Some of the items entering into their accounts in India as costs are not open to check or verification; and owing to the interlocking of ownership what is shown as an item of cost for the company in India may in fact include an element of profit for the group as a whole, the purchase and transportation of crude oil takes place through a series of intermediaries, which makes it impossible to go behind the invoices received by the company in India and to determine the real spread between the price charged to India and the price at which it has been sold by the original producer. In these circumstances, there can be no assurance that the buyer in India has any freedom worth speaking of to purchase his crude oil on a competitive basis. In the matter of transport arrangement also, there is virtually little or no competition because of the interlocking between the oil companies and the carriers. The statistics given in the following paragraphs must be viewed with these reservations.

History & Working results of the Oil Companies

3.3 Burmah-Shell Oil Storage and Distributing Co. of India Ltd. :

3.3.1 The Company is incorporated in U.K. and maintains its accounts in sterling. The capital of the Company now stands at £25 million. The corporate status of the Burmah-Shell Oil Storage and Distributing Co. of India Ltd. (BMS), and its share capital have remained unchanged. BSM functions as a purchase/trading organisation. The chemicals which were uptill now marketed by it on consignment basis are now stated to be marketed by NOCIL.

An analysis of the Company's published accounts for the last three years, viz., 1965, 1966 and 1967 reveals the following working results :

(Rs. in million)			
	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	146.79	191.58	210.93
(b) Working capital	295.80	255.79	243.42
(c) Total capital employed	442.59	447.37	454.35
(ii) Sales turnover	2527.59	2510.49	2625.95
(iii) Quantity sold (Million/Kl)	5.60	5.24	5.04
(iv) Capital employed per Kl sold (Rs.)			
(a) Fixed assets	26.21	36.56	41.85
(b) Working capital	52.82	48.81	48.30
(c) Total	79.03	85.37	90.15

(Rs./million)

	1965	1966	1967
(v) Profit prior to taxation, bonus, bad debts, interest, devaluation loss/gain etc.	87.60	80.91	80.30
(vi) Profit as percentage on capital employed	19.79	18.09	17.67
(vii) Profit as percentage on sales turnover	3.47	3.22	3.06
(viii) Profit per Kl. sold (Rs.)	15.64	15.44	15.93

3.3.2 Further, under the Agreement between BSM and its associate refinery (BSR), the crude is refined by the latter on the basis of a processing fee calculated according to a formula agreed between them. Consequently, the ownership of crude and the refined products at BSR vests in the marketing company and not in the refining company as is the case with other oil companies. The working capital of BSM shown above, therefore, includes a portion required for supply of crude, which is normally borne by a refinery.

3.4 Burma Shell Refineries Ltd. (BSR) :

3.4.1 The following statement gives the main working results of this Company as shown in its published accounts for 1965, 1966 and 1967 :—

(Rs. in million)

	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	197.56	196.38	192.80
(b) Working capital	29.31	32.08	43.86
(c) Total capital employed	226.87	228.46	236.66
(ii) Total crude throughput (million/tonnes)	3.996	4.008	3.787
(iii) Capital employed per tonne of crude processed (Rs.)			
(a) Fixed assets	49.44	49.00	50.91
(b) Working capital	7.33	8.00	11.58
(c) Total	56.77	57.00	62.49
(iv) Profit prior to taxation, interest, bonus, etc.	59.05	67.73	56.18
(v) Profit as percentage on capital employed	26.03	29.65	23.74
(vi) Profit per tonne of crude processed (Rs.)	14.78	16.90	14.84

3.4.2 In view of the inter-company arrangements regarding the ownership of crude and products and other financial matters, we have tried to estimate the profitability of the Burmah-Shell Group as if the marketing

and refining companies were integrated. The following table gives an analysis on this basis :—

	(Rs./million)		
	1965	1966	1967
(i) Profit prior to taxation, interest, bad debts, devaluation loss/gain etc.	146.65	148.64	136.48
(ii) Capital employed	669.46	675.83	691.01
(iii) Profit as percentage on capital employed .	21.91	21.99	19.75

It will be seen that in 1967, as a percentage of capital employed, while the marketing company earned a profit of 17.67 per cent and its refinery 23.74 per cent, the profit on the combined operation worked out to 19.75 per cent.

3.5 Esso Standard Eastern Inc. (Esso)

3.5.1 The South East Asia Division of Esso Standard Eastern Inc. (Esso) is a branch of the Esso Standard Eastern Inc. of New York and a wholly owned affiliate of Standard Oil Company, New Jersey, and is in charge of marketing and distribution activities in Ceylon, Nepal and India with its head office at Bombay. All the shares of Esso Standard Eastern Inc. are held by Standard Oil Company, New Jersey. The Accounts of the company are closed at the end of December every year and are made out separately for India operations, which include the Indo-Stanvac Petroleum Project (Exploration and Leasing) even though activity in the latter project has ceased since 1960. The residuary assets and liabilities of the Project continue to be reflected in the published accounts of India operations. The accounts of the India operations do not exhibit any separate paid up capital, and the entire excess of assets over liabilities is transferred to the accounts of Esso's overseas head office. The General Manager at Bombay controls the marketing operations in India, Ceylon and Nepal.

3.5.2 The gross block for India marketing operations was Rs. 221.518 million at the end of 1967 and the net block according to the Company's books was Rs. 131.482 million. The profits prior to taxation on India marketing operations for each of the three years 1965 to 1967 were Rs. 26.234 million, Rs. 22.740 million and Rs. 19.146 million, respectively. The relationship of profit to capital employed and cost of turnover, as derived from the published accounts, is given below along with the profit per kilolitre :—

	(Rs. in million)		
	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	123.082	128.945	130.428
(b) Working capital	245.736	233.350	243.690
(c) Total capital employed	368.818	362.295	374.118

(Rs./million)

	1965	1966	1967
(ii) Sales turnover	1306.026	1357.910	1468.155
(iii) Quantity sold (million/Kl.)	3.37	3.25	3.27
(iv) Capital employed per Kl sold (Rs.)			
(a) Fixed assets	36.49	39.69	39.90
(b) Working capital	72.85	71.82	74.55
(c) Total	109.34	111.51	114.45
(v) Profit prior to taxation, bonus, bad debts, interest, etc.	26.234	22.740	19.146
(vi) Profit as percentage on capital employed	7.11	6.28	5.12
(vii) Profit as percentage on sales turnover	2.01	1.67	1.30
(viii) Profit per Kl. sold (Rs.)	7.78	7.00	5.86

3.6 Esso Standard Refining Company of India Ltd. (ESRC) :

3.6.1 This is a public limited company incorporated under the Indian Companies Act. All the equity shares of the Company amounting to Rs. 22.5 million are held by Esso Standard Eastern Inc. and its nominees, while all the preference shares are allotted to Indian investors. The accounts of the Company are closed at the end of December every year. The General Manager's office at Bombay of Esso maintains the accounts of ESRC and for these and other services rendered by the General Manager's office, proportionate charges are debited to ESRC. Similarly, ESRC gets debit of New York office expenses and research expenses from its associates at New York for service rendered by them.

3.6.2 The working results of the Company as disclosed by its published accounts are summarised below :—

(Rs./million)

	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	80.154	74.483	69.376
(b) Working capital	160.908	166.189	178.407
(c) Total capital employed	241.062	240.672	247.785
(ii) Total crude throughput (million tonnes)	2.60	2.78	2.52
(iii) Capital employed per tonne of crude processed (Rs.)			
(a) Fixed assets	30.83	26.82	27.51
(b) Working capital	61.89	59.84	70.74
(c) Total	92.72	86.66	98.25
(iv) Profit prior to taxation, loans and bad debts, etc.	26.003	14.938	28.095
(v) Profit as percentage on capital employed	10.79	6.21	11.34
(vi) Profit per tonne of crude processed (Rs.)	10.00	5.38	11.14

3.6.3 ESRC owns the crude and all the refining expenses and sales realisations are reflected in its books. However, if the refining and marketing operations are viewed as integrated ones, the combined profitability position of ESRC and Esso would emerge as under :—

	(Rs./million)		
	1965	1966	1967
(i) Profit prior to provision for taxation, bonus, bad debts, etc.	52.237	37.678	47.241
(ii) Capital employed	472.61	449.10	455.48
(iii) Profit as percentage on capital employed	11.05	8.39	10.37

It will be seen that in 1967, whereas as a percentage of capital employed, the marketing company earned a profit of 5.12 per cent and the refinery 11.34 per cent, the profit on the combined operation worked out to 10.37 per cent. While calculating the figures for capital employed for Esso Group's integrated operations of refining and marketing, we have had to make certain adjustments to avoid double counting of inter company balances, because the two companies do not treat such balances identically in their respective accounts. (see paragraph 3.14.1).

3.7 Caltex (India) Limited :

3.7.1 The Company continues to import crude oil for refining in India by Caltex Oil Refining (India) Ltd. at the refinery situated at Visakhapatnam on payment of processing fees. Since 1966, however, crude ownership has been transferred from Caltex (India) Ltd. to Caltex Oil Refining (India) Ltd. and the products are taken over by Caltex (India) Ltd. Upto 1966 exports of surplus products were handled by Caltex (India) Ltd. but from 1967 such exports have been handled by Caltex Oil Refining (India) Ltd. direct.

3.7.2 The share capital of the Company was increased from Rs. 45.48 million in 1963 to Rs. 47.33 million in 1964 and continued at that level. The profitability position as per balance sheet is given below :—

	(Rs./million)		
	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	62.583	56.472	53.380
(b) Working capital	35.884	24.370	39.014
(c) Total capital employed	98.467	80.842	92.394
(ii) Sales turnover	805.523	734.607	798.812
(iii) Quantity sold (million/kl)	1.904	1.669	1.844
(iv) Capital employed per kl. sold (Rs.)			
(a) Fixed assets	32.87	33.84	28.95
(b) Working capital	18.84	14.60	21.16
(c) Total	51.71	48.44	50.11
(v) Profit prior to provision for taxation, bonus, bad debts, etc.	4.193	21.621	26.612
(vi) Profit as percentage on capital employed	4.26	26.74	28.82
(vii) Profit as percentage on sales turnover	0.52	2.94	3.33
(viii) Profit per kl. sold (Rs.)	2.20	12.95	14.43

3.8 Caltex Oil Refining (India) Ltd. (CORIL) :

3.8.1 Caltex Oil Refining (India) Ltd. (CORIL) has been refining the crude supplied by Caltex on a processing fee basis upto the end of 1965, therefore, the accounts of CORIL reflect upto 1965, the processing fees earned and the processing expenses incurred. From 1966, the crude is owned by the refinery and the products are sold to Caltex, but exports are handled direct by CORIL since 1967. The accounts reflect the results of transactions accordingly.

3.8.2 The working results as per the published accounts are given below :—

	(Rs./million)		
	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	78.161	78.618	75.875
(b) Working capital	82.594	89.123	84.530
(c) Total capital employed	160.755	167.741	160.405
(ii) Total crude throughput (million/tonnes)	1.10	1.28	1.28
(iii) Capital employed per tonne of crude processed (Rs.).			
(a) Fixed assets	71.06	61.42	59.28
(b) Working capital	75.08	69.62	66.04
(c) Total	146.14	131.04	125.32
(iv) Profit prior to taxation, bonus, etc.	4.134	1.978	4.684
(v) Profit as percentage on capital employed	2.57	1.18	2.92
(vi) Profit per tonne of crude processed (Rs.)	3.76	1.54	3.65

3.8.3 The combined results of both the refining and marketing operations are indicated below :—

	(Rs./million)		
	1965	1966	1967
(i) Profit prior to taxation, bonus, etc.	8.327	23.599	31.2.6
(ii) Capital employed	259.222	248.583	252.799
(iii) Profit as percentage on capital employed	3.21	9.49	12.38

In contrast with Burmah-Shell and Esso groups the profit earned by the Caltex group on the refining operation was much less than that on the marketing operation. In 1957, Caltex earned 2.92 per cent on capital employed on refining, as compared with 28.82 per cent on marketing, the combined profit being 12.38 per cent. This apparent disparity is due to the fact that the amount of capital employed per tonne of crude processed varies widely from Rs. 62.49 per BSR, Rs. 98.25 for ESRC and Rs. 125.32 for CORIL. On the marketing side, capital employed per

kilolitre sold varied equally widely from Rs. 90·15 for BSM, Rs. 114·45 for Esso and only Rs. 50·11 for Caltex. These disparities make it difficult to make a proper comparison of the relative profitability of the different companies in their refining/marketing operations.

3·9 However, the following table shows the profit earned by the three companies as a percentage of capital employed in their combined operations of refining and marketing as a percentage of capital employed :—

	(Rs./million)		
	1965	1966	1967
(i) BSM and BSR	21·91	21·99	19·75
(ii) Esso and ESRC	11·05	8·39	10·37
(iii) Caltex and CORIL	13·21	9·49	12·38

3·10 Indian Oil Corporation Ltd. (Marketing Division) (IOC) :

3·10·1 In August, 1958, the Indian Refineries Ltd. was incorporated in the public sector with the main object of refining and manufacturing of petroleum products. In June, 1959, the Indian Oil Company Ltd. was also incorporated in the public sector mainly for the marketing and distribution of petroleum products. However, with effect from the 1st September, 1964, the Indian Oil Company Ltd. and the Indian Refineries Ltd. were merged under the name and style of Indian Oil Corporation Ltd., with registered office at Bombay, with a Marketing Division with head office at Bombay and Refineries Division and Pipeline Division with their head offices at New Delhi. On the recommendation of the Committee on Public Undertakings, the Pipeline Division has been merged with the Refineries Division with effect from the 23rd February, 1968. The combined authorised capital of the Indian Oil Corporation, as a whole as on the 31st March, 1968, consists of 850,000 equity shares of Rs. 1,000 each, out of which 711,772 equity shares of Rs. 1,000 each have been issued, subscribed and fully paid.

3·10·2 The Marketing Division of the Indian Oil Corporation has four branches with offices at Bombay, Madras, New Delhi and Calcutta, each branch controlling the distribution, sales, installations, depots, etc. in its respective jurisdiction. As on the 1st April, 1968, IOC had eleven port installations in all—one each at Visakhapatnam, Kandla and Okha and two each at Madras, Bombay, Calcutta and Cochin. There are nine inland installations owned by the Corporation at Shakurbasti, Allahabad, Kanpur, Mughalsarai, Siliguri, Rajband, Patna, Morigram and Sabarmati. In addition, public sector refineries coming under the control of Refineries Division of IOC have their installations at Koyali, Barauni and Gauhati. The Corporation has 110 up-country depots and 1741 retail pump outlets. The Corporation also operates 52 airfield refuelling stations.

3·10·3 The Marketing Division deals mainly in petroleum products indigenously produced by the public sector refineries of the Refineries Division of the Corporation and those of the refineries under participation like Cochin Refineries Ltd. In addition, the Corporation also imports deficit products mostly from USSR and other East European countries. It also handles products received from private oil companies in India under 'product exchange scheme'.

3.10.4 The accounts of IOC are closed as at 31st March, each year. The published accounts of the Corporation reveal a combined picture for all the three Divisions. Therefore, the final accounts of the Marketing Division alone as maintained by that Division of the Corporation, have been analysed. The profits earned and the capital employed with certain financial ratios for the years 1965-66 to 1967-68 are shown in the following paragraphs for the Marketing Division only :—

(Rs./million)

	1965-66	1966-67	1967-68
(i) Capital employed			
(a) Fixed assets	114.19	162.85	205.63
(b) Working capital	193.90	231.70	263.16
(c) Total capital employed	308.09	394.55	468.79
(ii) Sales turnover	1701.38	2372.88	3039.93
(iii) Quantity sold (Million/kl)	3.79	4.88	6.96
(iv) Capital employed per kl sold (Rs.)			
(a) Fixed assets	30.12	33.34	29.54
(b) Working capital	51.15	47.44	37.81
(c) Total	81.27	80.78	67.35
(v) Profit prior to taxation, bonus, bad debts, interest, etc.	71.58	78.31	89.97
(vi) Profit as percentage on capital employed	23.23	19.85	19.19
(vii) Profit as percentage on sales turnover	4.21	3.30	2.96
(viii) Profit per Kl sold (Rs.)	18.88	16.03	12.93

3.11 Indian Oil Corporation Ltd. (Refineries Division)

3.11.1 Initially, the two refineries planned at Gauhati and Barauni were entrusted to the Indian Refineries Ltd. The initial authorised capital of the company was Rs. 300 million, which was subsequently increased in the year 1963-64 to Rs. 500 million in order to cover the construction of Gauhati-Siliguri and Haldia-Barauni-Kanpur pipeline projects. After the transfer of Gujarat Refinery and the merger of the Indian Refineries Ltd., and the Indian Oil Company Ltd., the authorised capital of the combined IOC is Rs. 850 million.

3.11.2 The Refineries Division of IOC at present has three refineries under its control at Gauhati, Barauni and Koyali. The initial rated capacity of Gauhati Refinery, constructed with the technical collaboration of Industrial-Export, Rumania, was 0.75 million tonnes. The refinery processed 0.812 million tonnes of crude during 1967-68. The crude is received from the Oil India and the ONGC from their fields at Nahorkatiya, Moran and Rudrasagar.

3.11.3 The Barauni Refinery with initial rated capacity of 2 million tonnes was constructed with the technical collaboration of USSR. During the year 1967-68, the refinery processed 1.630 million tonnes. The refinery is under expansion to 3 million tonnes capacity. The entire requirements of crude oil of this refinery are met by oil India at present. However, since the existing pipeline capacity of Oil India is only 2.75 million tonnes per year, it will become necessary for ONGC also to supply crude to this refinery in due course.

3.11.4 The Gujarat refinery (Koyali) located at Jawahar Nagar, District Baroda, was also constructed with the technical collaboration of USSR. The Initial rated capacity of this refinery was 2 million tonnes. During 1967-68, the refinery was operated at 1.921 million tonnes and during 1968-69 the refinery achieved a throughput of 2.96 million tonnes. From October, 1968, the refinery has been processing over 3 million tonnes. The capacity could be increased to 4 million tonnes with minor modifications. Bulk of the requirements of crude oil of these refinery are met by ONGC from their Ankleshwar fields and a small quantity is also obtained from Cambay, Kalol and Nawagam fields.

3.11.5 The Corporation is also in charge of the proposed Haldia refinery. The Initial installed capacity of this refinery, which is under construction, will be 2.5 million tonnes per annum, subsequently to be raised to 3.5 million tonnes.

3.11.6 On the basis of the accounts maintained by the individual refineries, as well as by the Refineries Division and after appropriate adjustments for the common expenses, assets and liabilities, the following results have been arrived at for the individual refineries as well as for the Refineries Division as a whole. (See page 17)

3.11.7 The result of IOC's operations on the basis of the integrated working of the Refineries, Marketing and Pipelines Divisions is given below for the last two years :—

(Rs./million)

	1966-67	1967-68
(i) Profit prior to provision for taxation, bonus, bad debts, etc.	124.03	151.20
(ii) Capital employed	1149.23	1311.92
(iii) Profit as percentage on capital employed	10.79	11.52

It is an expanding organisation, requiring increasing investment and also showing increasing profits.

(Rs./million)

1967-68

1966-67

	1966-67				1967-68			
	Gauhati	Barauni	Gujarat	Total Refineries Div.	Gauhati	Barauni	Gujarat	Total Refineries Div.
(i) Capital employed								
(a) Fixed Assets	132.514	364.448	205.457	702.419	127.751	397.442	249.042	774.235
(b) Working capital	13.383	20.871	18.006	52.260	14.917	31.145	22.829	68.891
(c) Total capital employed	145.897	385.319	223.463	754.679	142.668	428.587	271.871	843.126
(ii) Total crude throughput (million/tonnes)	0.743	1.113	1.381	3.237	0.812	1.630	1.918	4.360
(iii) Capital employed per tonne of crude processed (Rs.)								
(a) Fixed assets	178.35	327.45	148.77	217.00	157.33	243.83	129.85	177.58
(b) Working capital	18.01	18.75	13.04	16.14	18.37	19.11	11.90	15.80
(c) Total	196.36	346.20	161.81	233.14	175.70	262.94	141.75	193.38
(iv) Profit prior to taxation, interest, bonus, etc.	14.268	15.130	16.320	45.718	10.355	20.381	30.491	61.227
(v) Profit as percentage on capital employed	9.78	3.93	7.30	6.06	7.26	4.76	11.22	7.26
(vi) Profit per tonne of crude processed (Rs.)	19.20	13.59	11.82	14.12	12.75	12.50	15.90	14.04

3.12 Cochin Refineries Ltd. (CRL)

3.12.1 The following table summarises the working results of this Company as shown in its published accounts for the first two years of its operation, viz., 1966-67 and 1967-68 (Sept-Aug.).

	(Rs./million)	
	1966-67	1967-68
(i) Capital employed		
(a) Fixed assets	236.68	235.81
(b) Working capital	14.47	15.94
(c) Total capital employed	251.15	251.75
(ii) Total crude throughput (million/tonnes)	1.80	2.63
(iii) Capital employed per tonne of crude processed (Rs.)		
(a) Fixed assets	131.27	89.59
(b) Working capital	8.03	6.06
(c) Total	139.30	95.65
(iv) Profit prior to provision for taxation, interest, bonus etc.	21.71	45.06
(v) Profit as percentage on capital employed	8.6	17.9
(vi) Profit per tonne of crude processed (Rs.)	12.05	17.12

The company has shown profit from the first year of its operation.

3.13 Assam oil Co. Ltd. (AOC)

3.13.1 Assam oil Co. Ltd. is a vertically integrated company engaged in the finding and production of crude oil and refining and marketing of petroleum products. It is a wholly owned subsidiary of Burmah Oil Co. Ltd., London. The paid up capital of the company at the end of December, 1967, was £40,00,000 divided into 4 million shares of £1 each, fully paid up and held by Burmah Oil Co., London. Burmah Oil Co. (India Trading) Ltd. was marketing the products of Assam Oil Co. refinery till the 31st December, 1965. From the 1st January, 1966, the marketing function has been taken over by Assam Oil Co. Ltd. The company handed over the aviation service facilities entirely to the Indian Oil Corporation early in 1967. Assam Oil Co. operates only within its marketing area comprising Assam, Manipur, Tripura, Nagaland and the NEFA. It is also selling on consignment account Shell lubricants and greases in its marketing areas and receives a commission of 5 percent on the gross proceeds. From the 1st July, 1967, Assam Oil Co. discontinued the marketing of chemicals such as pesticides and fungicides etc. The operating headquarters of Assam Oil Co. Ltd. and Burmah Oil Co. (I.T.) Ltd. are situated at Digboi and common expenses are borne in the books of Assam Oil Co. Ltd. initially. Assam Oil Co. is recovering from Burmah Oil Co. (I.T.) Ltd. charges for services rendered and pays annual rental for the use of marketing facilities which continue to be owned by Burmah Oil Co. (I.T.) Ltd. even after the take over of marketing function by Assam Oil Co. Ltd.

3.13.2 For this company separate financial analysis for each of the functions mentioned earlier was not possible in the absence of relevant data. Further, on the marketing side, Burmah Oil Co. (I.T.) Ltd. continues to own the marketing facilities while installations and pipe-lines are borne in the books of Assam Oil Co. Burmah Oil Co. (I.T.) Ltd. recovers rental from Assam Oil Co. for the use of marketing facilities. As the capital employed is integrated, it is appropriate to study the combined manufacturing and trading results of Burmah Oil Co. (I.T.) Ltd. and Assam Oil Co. Ltd. The table below indicates the combined working results of both the companies for the years 1965 to 1967 :

	(Rs./million)		
	1965	1966	1967
(i) Capital employed			
(a) Fixed assets	17.97	22.21	24.79
(b) Working capital	92.64	75.98	71.83
(c) Total capital employed	110.61	98.19	96.62
(ii) Sales turnover	292.23	336.35	346.50
(iii) Quantity sold (million/Kl)	0.58	0.71	0.66
(iv) Capital employed per Kl sold (Rs.)			
(a) Fixed assets	30.98	31.28	37.56
(b) Working capital	159.72	107.01	108.83
(c) Total	190.71	138.30	146.39
(v) Profit prior to provision for taxation, bonus, bad debts, etc.	2.17	17.57	29.37
(vi) Profit as percentage on capital employed	1.96	17.90	30.40
(vii) Profit as percentage on sales turnover	0.74	5.22	8.48
(viii) Profit per Kl sold (Rs.)	3.74	24.75	44.50

The above analysis shows that the profits during the years 1966 and 1967 were far higher compared to the earlier year. This is mainly due to lower cost of crude oil and the greater margin in product realisation after devaluation.

3.14 Inter-Company Comparison of Profitability :

3.14.1 The following table compares the profitability of the different marketing companies for the year 1967.

Per Kl of products sold (Rs.)

	Volume of sales handled (M/Kl)	Fixed assets	Working capital	Capital employed	Profit	Profit as percentage of capital employed
Burmah Shell	5.04	41.85	48.30	90.15	15.93	17.67
Easo	3.27	39.90	49.09	88.99	5.86	6.58
Caltex	1.84	28.95	21.16	50.11	14.43	28.82
IOC	6.96	29.54	37.81	67.35	12.93	19.19

Caltex has earned the highest rate of profit on capital employed and Esso the lowest. It has been observed that the investment in fixed assets per Kl of products sold is higher in case of Burmah Shell and Esso than in the case of Caltex and IOC. The block investment of Burmah Shell, which is in terms of sterling, went up in its rupee value as a result of devaluation, whereas the rupee value of fixed investment in Esso and Caltex remained unchanged. Moreover, in the case of Caltex and IOC, there was an increase in the quantity sold. If BSM's figures were adjusted to pre-devaluation parity, its fixed investment per Kl sold would appear to be more or less equal to that of Caltex or IOC. Further, in the case of Caltex, the marketing company receives credit from the refinery to the extent of 5 to 6 months' sales which reduces the former's working capital requirements. The Esso marketing company enjoys a similar facility, but while the refinery shows the credit extended to the marketing company as part of its current assets, the marketing company does not show it as its current liability with the result that this amount would become part of its capital employed if no adjustment is made. We have treated 50 per cent of the amount of inter-company credit in the Esso group as current receivable and the balance as financing arrangements. The figures of capital employed given for Esso in the above table have been arrived at after making this adjustment. An important factor affecting Esso's profitability is that although mineral turpentine oil and jute batching oil were required by Government to be sold to consumers only at the pre-devaluation parity, the marketing company purchased these products from the refinery on the post-devaluation basis and suffered the loss on account of the deference. The higher profitability of Burmah Shell is explained by its higher earnings from lubricants, greases and LPG. Whereas Burmah Shell handles all sales, retail and wholesale, of LPG itself, Esso and Caltex sell LPG to other companies and consequently the profits on the retail sales are not reflected in their accounts. In the case of IOC, unlike the private oil companies, the Marketing Division does not have to incur expenditure on the maintenance of storage tanks at its installations near the sites of its refineries; therefore, its profitability benefits by the avoidance of normal expenditure on maintenance of such storage facilities.

3.14.2 The following table gives a broad comparison of the profitability of the various refineries in 1967 :—

	Average processing capacity in m/tonnes	Capacity utilized percentage	Per Kl of saleable output (including own consumption (Rs.))		Profit as percentage on capital employed
			Capital employed	Profit	
BSR	4.00	95	53.59	12.72	23.75
ESRC	3.00	84	53.92	9.21	17.08
CORIL	1.60	80	108.97	3.18	2.91
IOC					
Gauhati	0.75	108	148.15	10.76	7.26
Barauni	2.00	82	221.72	10.54	4.75
Koyali	2.50	77	116.48	13.06	11.22
IOCTotal	5.25	83	161.21	11.71	7.26
CRL	2.50	105	81.31	14.55	17.90

The significantly higher profitability of BSR is mostly due to the more favourable product mix resulting in higher realization. ESRC and CORIL appear to be handicapped in the production of naphtha whereas BSR is equipped to refine the naphtha fractions into motor spirit 93 Octane and also to arrange its export at higher netback. Of the IOC refineries, Koyali pays more for crude due to adjustments for API gravity but has a favourable pattern of production, of which the refinery does not derive full benefit due to the low price of its heavy ends compared to BSR and ESRC, which earn higher netback on their production of bitumen and other heavy distillates. Koyali is expected to show still better result on expansion to 4.00 million tonnes. The lower profit of CORIL is attributable to the higher investment in fixed assets and the credit facility extended to the associate marketing company. CORIL's investment, on fixed assets is higher by about Rs. 8 per tonne of crude than that of BSR, despite the fact that the latter includes investment on bitumen drum manufacturing plant, LPG bottling plant and LPG cylinders. The reasons for such higher investment in the case of CORIL are not clear to us. The higher investment in fixed assets of IOC refineries is obviously due to the higher cost of construction and inland location requiring greater capital outlay on sewage, roads and the provision of extensive townships and other facilities. These refineries also generate their own power at substantial capital cost. The high investment on fixed assets at Barauni is attributable to comparatively much higher expenditure on development of the refinery site, and the township being bigger than at Gauhati and Koyali. The investment on plant and machinery at Barauni is also the highest due to the installation of lubes plant, kerosene treatment unit, coaking unit and bitumen unit, at the gross original value of Rs. 137 million. This is said to have been necessitated by the nature of the crude and the processes involved and the built-in plant to manufacture lubricants and greases. The position of this refinery may improve on achievement of the programmed expansion and satisfactory operation of the lube plant. IOC's cost structure for refining has been rendered unfavourable by the comparatively higher capital cost, higher incidence of salaries and wages due to surplus labour and the high cost of generation of power compares so BSR and CRL, who purchase power from outside.

3.14.3 In view of the fact that different companies have different arrangements regarding ownership of crude, pricing of products on transfer to the associated marketing company, disposal of LPG and the internal adjustment of under-recovery of coastal freight on products, the results of the different groups' integrated operations shown in the following table provide a more meaningful comparison :—

	Profits as percentage of capital employed in 1967
BSM and BSR	19.75
ESSO and ESRC	10.37
Caltex and CORIL	12.38
IOC	11.52
AOC	30.40

The above analysis shows that the gross profit of the industry in 1967 has been generally higher than 11.50 per cent on capital employed. The comparatively lower position of Esso is mainly attributable to the pattern of production, the comparatively higher cost of ancillary items like bitumen drums and the impact of the additional (non-recoverable) duties payable on account of undue over-recoveries in the previous years.

CHAPTER FOUR

Demand for Petroleum Products

4.1 The total sales (excluding deliveries to foreign bunkers) of petroleum products for each of the years 1965 to 1968 are given below :—

(Million-tonnes)

	1965	1966	1967	1968
Products				
1. Bulk refined petroleum products	9.560	9.968	10.430	11.770
Growth per cent	100	104	109	123
2. Bitumen and bitumenous compounds	0.589	0.538	0.526	0.622
Growth per cent	100	91	89	106
3. Lubricants and greases	0.444	0.388	0.463	0.487
Growth percent	100	87	104	110
4. Specialities	0.163	0.156	0.193	0.169
Growth per cent	100	96	118	104

The average rate of growth in all-India consumption which was 9.8 per cent from 1956 to 1961 decreased to 9.2 per cent from 1961 to 1966. For the period 1966 to 1975, the probable growth rate is estimated at 11.2 per cent per annum.

4.2 The future estimates of all-India consumption, exclusive of deliveries to foreign bunkers, made by the Indian Institute of Petroleum are given below :—

(Million tonnes)

	1969	1970	1971	1972	1973
Bulk refined products	12.436	13.521	14.714	16.049	17.517
Bitumen and bitumenous compounds	0.672	0.725	0.783	0.845	0.912
Lubricants and greases	0.537	0.590	0.649	0.700	0.756
Specialities	0.192	0.210	0.228	0.246	0.268
LPG	0.120	0.144	0.173	0.208	0.250
Naphtha	0.889	1.491	1.898	2.343	3.648
TOTAL	14.846	16.681	18.445	20.391	23.351

4.3 Based on the above, we estimate that during 1970 to 1972 the total sales of the 4 major oil companies, which will supply more than 95 per cent of the total consumption, will average 19.451 million kilolitre (excluding LPG and Naphtha) and 23.29 million kilolitre (including LPG and Naphtha) per year. The shares of individual companies are estimated as under :—

(Million kilolitre)						
	Burmah Shell	Esso	Caltex	IOC	Total	
Bulk refined products . . .	3.689	2.100	1.320	10.465	17.574	
Bitumen and Bitumenous com- pounds.	0.275	0.145	0.045	0.300	0.765	
Lubricants and greases . . .	0.125	0.130	0.050	0.480	0.785	
Specialities	0.125	0.080	0.002	0.120	0.327	
TOTAL(A)	4.214	2.455	1.417	11.365	19.451	
LPG	0.107	0.129	0.017	0.122	0.375	
Naphtha	0.427	0.283	0.120	2.634	3.464	
TOTAL(B)	4.748	2.867	1.554	14.121	23.290	
Share of each company (A) per- centage	21.67	12.62	7.28	58.43	100	
Share of each company (B) per- centage	20.39	12.31	6.67	60.63	100	

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CHAPTER FIVE

Cost of Imported Crude Oil

5.1 The existing and the projected refineries at the coast are essentially based on imported crude oil with the provision for use of indigenous crude oil in circumstances and on conditions specified in the relevant agreements. The total quantities of crude oil imported and their value in foreign exchange from 1965 to 1968 were as under :—

	Quantity imported in million tonnes	Value Rs./million
1965	6.8	403.8
1966	7.5	561.0
1967	8.7	795.9
1968	10.5	938.8

5.2 The two Bombay refineries used in addition indigenous crude from the Gujarat oil fields totalling 0.94 million tonnes in 1965, 1.05 million tonnes in 1966, 0.98 million tonnes in 1967 and 0.13 million tonnes in 1968. By 1975 the total refining capacity required to meet domestic requirements is estimated at 34.00 million tonnes and the availability of indigenous crude oil at about 12.00 million tonnes, involving import of about 22 million tonnes at a cost of nearly Rs. 2,000 million annually in foreign exchange.

I. Arrangements for Import of Crude Oil

5.3 The structure of the coastal refineries and their arrangements for the import of crude are described below.

5.3(a) : Esso standard Refining Company of India Ltd. (ESRC) :

5.3.1 This a private limited company incorporated on the 5th July 1952, in Bombay in pursuance of the Agreement of the 30th November, 1951, between the Standard Vacuum Oil Co. (renamed Esso on the 31st March, 1962) and the Government of India for the establishment of the refinery at Trombay, Bombay, with an initial capacity of 1.2 million long tons per annum. The refinery went on stream on the 29th July, 1954. The highest throughput of 2.52 million tonnes of crude oil was achieved in 1967.

5.3.2 Since the 1st July, 1967, Esso Standard Eastern, Inc. is no longer a party to the sale of crude oil to ESRC, which purchases its crude oil from Esso International Inc. at prices said to be established after consideration of the competitive conditions. Esso International is a wholly owned subsidiary of Standard Oil Company of New Jersey and does, not produce any oil itself. It obtains crude oil from suppliers in the

Middle East. Since the end of June, 1968, Light Iranian crude oil (34.4-34.9 API gravity) is imported for this refinery at a discount of 41 cents per barrel; the net price being \$1.38/bbl f.o.b. Kharg Island. Esso has claimed that this price is competitive with comparable supplies to other countries having regard to the type of crude oil and the location of source. Esso also maintains that its suppliers have access to a wide range of crudes thus assuring on a continuous basis supplies most suitable from the standpoint of yield pattern and plant capability.

5.3.3 The suppliers of crude oil also provide the necessary transportation at marine freight calculated on the basis of the London Tanker Broker Panel's AFRA (Average Freight Rate Assessment) as applied to the International Tanker Nominal Freight Scale (INTASCALE) which is computed since the 1st June, 1968, at rates applicable to Large Range tankers (about 45,000 tonnes) regardless of the size of the tanker actually employed. At current rates, this results in a freight reduction of 3-5 cents per barrel. Under the Refinery Agreement of the 30th November, 1951, Esso is permitted to obtain crude oil from its own sources of supply abroad at world market prices.

5.3 (b) Burmah-Shell Refineries Ltd. (BSR) :

5.3.4 This is a public company promoted in India on the 3rd November, 1952, by its foreign shareholders, viz., Burmah Oil Company Ltd. and the Anglo Saxon Petroleum Co. Ltd. (now Shell Petroleum Co. Ltd.) for the establishment of an oil refinery at Bombay, in terms of the Agreement of the 15th February, 1951, concluded with the Government of India. At the time the refinery was constructed, the approved capacity was 2 million tons per annum. The pattern of the refinery was generally determined by the needs of the Bombay Economic Supply Area, both in respect of quantity and quality. Since the commissioning of the refinery on the 31st January, 1955, the crude throughput and product output of the refinery have increased from time to time: the highest crude throughput of 4,00 million tonnes was attained in 1966.

5.3.5 The crude refined by the Burmah-Shell Refineries Ltd. (BSR) is owned by its Marketing Associates, viz., Burmah-Shell Oil Storage & Distributing Co. of India Ltd. (BSM). BSR "functions solely as a contractual manufacturer receiving as income a fee paid by the owners of oil being processed, i.e., BSM". This fee, called the Process Fee or the Refiner's Margin is based on the spread between the value of the crude purchased and that of the refined products outturn.

5.3.6 In terms of the Supply Contract concluded on the 1st January, 1962, between BSM and its foreign suppliers, BSR's requirements of imported crude are purchased roughly in the ratio of 50:50 from the Shell International Petroleum Co. Ltd., London (SIPC) and the Petroleum Supplies & Services Ltd., London (PSS) at prices "determined by negotiations between the parties on the basis that at all times such prices shall be fair and reasonable." The suppliers are themselves not the producers of crude oil as they are merely international trading companies having access to crude supplies from several sources and having facilities to dispose of surpluses of products arising at BSR. Shell International Petroleum Co. Ltd. (SIPC) is affiliated to Royal Dutch and/or Shell Group of Companies and the Supply Contracts provide for its share of crude supply also

being met by N.V. Koninklijke Nederlandsche Petroleum Maatschappij (Royal Dutch) or the Shell Transport & Trading Company Ltd. (Shell Transport) or a subsidiary of Royal Dutch and/or Shell Transport. The share of crude supply of Petroleum Supplies & Services Ltd. may similarly be met by any other subsidiary of Burmah Oil Co. Ltd., which has large holdings in Shell Transport & British Petroleum. BSR has stated that no remuneration is paid by BSM to the suppliers for services rendered in respect of crude supplies.

5.3.7 The crude is transported from the Middle East sources of supply in vessels arranged by the suppliers on behalf of BSM. The freight from the loading port to Bombay is calculated on the basis of AFRA as applied to INTASCALE and as amended from time to time. Previously, crude was normally imported in Medium Range (MR)—25,000 to 44,999 DWT-tankers, but, with effect from the 1st May, 1968, BSM's suppliers have agreed to charge freight at Large Range (LR) 45,000-79,999 DWT—AFRA rates on all imports, even though, during the monsoon period imports would actually have to take place in MR vessels. The Supply Contracts concluded between BSM and its suppliers are valid for 15 years from the 1st January, 1962, and, unless terminated by 3 years' notice, indefinitely thereafter.

5.3.8 It is not known which particular company in the chain of supplies bears the burden of the discounts. The Supply Contracts are designed to ensure that imports for BSR are made by BSM of crude oil produced/sold by a series of companies including the parent companies, their affiliates and subsidiaries.

5.3 (c) Caltex Oil Refining (India) Ltd. (CORIL) :

5.3.9 This is also a public company promoted in India on the 23rd February, 1955, by its foreign owner, viz., Caltex (India) Ltd., for the establishment of the oil refinery at Visakhapatnam in terms of the Agreement with the Government of India of the 28th March, 1953, with the capacity of 0.675 million tons per annum. This refinery is presently capable of processing 1.6 million tonnes of crude per year. Since the commissioning of the refinery in 1957, the crude throughput has increased from time to time, depending upon the foreign exchange allocation made by Government for import of crude oil; the highest crude throughput of 1.543 million tonnes was achieved in 1968.

5.3.10 The crude was owned by Caltex (India) Ltd. up to the 28th February, 1967, and since then the crude processed is owned by CORIL. The finished products are handed over by CORIL to Caltex at import parity prices and all coastal freight and export wharfage ex-Visakhapatnam are borne by the refinery. Thus, "Gross Refiner's Margin" to CORIL will be realization at import parity prices of finished products less cost of crude and expenses on coastal movements.

5.3.11 Consequent on the transfer of crude ownership from Caltex (India) Ltd., to Caltex Oil Refining (India) Ltd., the Crude Sales Agreement with Caltex (UK) Ltd. has been assigned to CORIL with effect from the 8th February, 1967. This arrangement will remain in force up to the 31st December, 1976. The import of Mines crude has been discontinued since August, 1965, and substituted by Light Iranian Crude.

5.3.12 The price of crude oil is based on posted prices or quoted prices applicable to the source of supply less discount which in terms of the agreement with the suppliers is, "competitive with other commercial discounts being offered for similar crudes of the same gravity and quality on long-term contracts for comparable quantities."

5.3.13 CORIL does not pay its suppliers any remuneration for the services rendered in connection with the supply of crude and is not aware of the rate of discount, if any, allowed to its supplier by the producer(s).

5.3.14 A major portion of the crude oil requirements is being transported by a medium size 34,294 SDW—Summer Deadweight—tonnes tanker, owned by the Shipping Corporation of India Ltd. Freight is incurred on the basis of time charter hire fixed in the Charter Party, bunker fuel costs, actual port charges, etc. The balance crude requirements are imported by foreign flag tankers mostly of T-2 type with SDW of 16,600 tons maximum and towards the second half of 1967, some imports were made by tankers with SDW of over 25,000 tons. In respect of such imports, freight is determined on the basis of INTASCALE freight rates with the applicable AFRA variations. Effective the 17th June, 1968, the suppliers are charging freight at rates applicable to Medium Range vessels even though a portion of crude may be imported by smaller, i.e., General Purpose (GP) tankers.

5.3 (d) Cochin Refineries Ltd. (CRL) :

5.3.15 The Cochin Refineries Ltd., was incorporated as a public limited company on the 6th September, 1963, under a tripartite Agreement between the Government of India holding 51 per cent of the shares, Phillips Petroleum Co. of USA 25 per cent, Duncan Brothers & Co. Ltd. of Calcutta 2 per cent and the balance held by others. The refinery has an installed capacity of 2.5 million tonnes of crude per annum i.e., 50,000 barrels per day. It went on stream in September, 1966 and attained a throughput of 2.543 million tonnes in 1968.

5.3.16 In terms of the letters exchanged on the 27th April, 1963 between the Government of India and Phillips Petroleum Co. of USA, the latter acts as agent for Cochin Refineries Ltd., for supply of crude oil for the refinery. Accordingly, Phillips has concluded with the Standard Oil Company of California, the Crude Supply Contract, dated the 15th November, 1963, as amended on the 1st February, 1966, providing for supplies of the specified quantity of crude oil. The important feature of this Contract is that the prices of Iranian and Arabian crude oils are determined at the same rates as those payable from time to time by Burmah-Shell, Esso and Caltex refineries, with the usual adjustments at the rate of 2 cents per barrel for each degree of differential in API gravity. No remuneration is paid to the agents for crude imports under this arrangement. The original Crude Oil Supply Contract concluded by Phillips was to remain in force for 15 years from the 10th October, 1966, with the option to either side to terminate it at the end of three years of deliveries. The Modification of the Formation Agreement, however, contemplates termination or revision of the Crude Supply Contract by October, 1970.

5.3.17 This refinery is presently processing Agha Jari Light Iranian crude obtained from the 1st May, 1968, at the f.o.b. cost of \$1.38/bbl as applicable to the imports by Burmah-Shell, Esso and Caltex.

5.3.18 The transportation arrangement of crude is based on the Contract of Affreightment entered into between Triton Shipping Inc. and CRL with Phillips Petroleum Co. as agents for chartering tankers. The freight is to be paid at a fixed rate in dollars per barrel, based on transport of crude in tankers of about 38,000 tonnes DWT. This rate will remain firm for the duration of the Contract but shall not exceed the prevailing INTASCALE rates; which means that the AFRA variations as applied to INTASCALE from time to time are not to be taken into account. The freight will be subject to adjustment on account of dead freight, depending on the draft conditions at the Cochin port.

5.3.19 The Modification of Formation Agreement made on the 26th February, 1969, provides for increase of refinery capacity to 70,000 barrels per day (=3.5 million tonnes per annum) by 1972. The Government of India will ensure that CRL will declare and pay dividends out of its profits and free reserves of at least an amount sufficient to enable Phillips to receive from CRL annually, commencing with the financial year 1967-68, a dividend which will result in a net after-tax dividend to Phillips of not less than the rupee equivalent of US \$388,270.24. This is equal to 10 per cent of Phillips share holding in dollars and sets a minimum to the dividend payable generally by CRL. If in a particular year the afore-said average net dividend is not achieved, the Government of India shall arrange for the income of CRL to be made up to the requisite extent. However, the payment to be made by the Government of India will be limited to the amount required to yield the guaranteed process margin laid down in the Formation Agreement of the 27th April, 1963, at the rate of US \$1.35 for a period of ten years commencing 1967-68 and US \$1.30 for the next five financial years. The figures \$1.35/1.30 will increase/decrease by as many cents per barrel as (a) c.i.f. cost of crude per barrel decreases/increases in the particular financial year and (b) the present level of non-recoverable excise duties borne by CRL are increased/decreased or other Government of India taxes, direct or indirect, other than income tax, are imposed hereinafter. The prices established and paid for the products of CRL shall not be less favourable than the prices established for the same type of products of other refineries in India, in the public or private sector. The Government of India also guarantees that it, or its nominee (viz. IOC), will purchase from the refinery all of the total sales products produced.

5.3.20 The modified agreement contains extraordinary incentives and concessions to Phillips inasmuch as it provides 10 per cent return on Phillips share-holding in dollars regardless of any increase in processing cost at the refinery and free of (a) income tax, (b) variations in \$/rupee exchange rate and (c) variation in ex-refinery prices. The guaranteed net average dividend is payable in foreign currency although the income is earned in India. Even variations in the rates of non-recoverable duties and any new taxes and duties, other than income tax, that the Government of India may impose hereafter, will have a bearing on the maximum payment to be made by the Government in any particular year to make up the shortfall, if any, in the average net dividend payable to Phillips. This stipulation places CRL outside the pale of taxation. Above all, if the c.i.f. of crude per barrel decreases (as it is likely to happen from year to year), the amount of the process margin to be taken into account to determine the maximum payment to CRL shall also go up by as many

cents per barrel. Further, the private sector refineries, viz., BSR and CORIL, are at present bearing (and ESRC was doing so up to the end of 1966) the additional transportation cost involved in coastal movement of their products, but, CRL has no such problem; such additional cost being entirely borne by IOC. We are dealing with this problem of under recoveries in coastal freight separately. The under recovery to IOC on this account is estimated at Rs. 21.4 million on 1969 production at CRL. This was normally expected to decline to about Rs. 12.00 million by 1972 due to increase in consumption in the hinterland of Cochin, but might actually overreach the 1969 mark in 1972 due to the increase in the refinery capacity under the Modification of Formation Agreement.

5.3 (e) Madras Refineries Limited (MRL) :

5.3.21 The refinery at Madras has a designed capacity to process not less than 50,000 barrels per day of crude oil. The Formation Agreement for this refinery was concluded on the 18th November, 1965, between the Government of India, on the one hand, with 74 per cent participation in the initial equity capital and the National Iranian Oil Co. of Iran and Amoco India Inc. of USA, on the other, with 13 per cent participation by each in dollars. The refinery will process crude oil from the Darius oil field in Iran. So long as the refinery is processing imported crude oil, its products will be purchased by Government or its nominee at prices determined on a basis no less favourable to the refinery than those prevailing for the same type of products of any other refinery in India processing imported crude oil. In case the refinery is processing indigenous crude oil, the prices of its products shall be no less favourable than those received by any other refinery in India processing indigenous crude oil. It is not, however, clear what proportion of the total requirements of the refinery should be obtained from indigenous sources, in order that the prices of its products may be determined on the basis of those payable to the refineries processing indigenous crude oil. The Government of India shall make available to the refinery Darius crude oil, or a substitute crude oil or blend of crude oils, at the price and terms provided for Darius crude oil in the Crude Oil Sales Agreement plus reasonable transportation costs.

5.3.22 A separate Crude Oil Sales Agreement of the 18th November, 1965, concluded between the Government of India, on the one hand and the National Iranian Oil Co. of Iran and the Pan American International Oil Co. of USA (affiliate of Amoco India), on the other, provides for the supply of crude oil from the Darius field in Iran (34.0 API gravity) or any other crude or blend of crude oils or tailored crudes in specified circumstances and conditions. This Agreement provides for sales to the Madras refinery of 42 million tonnes of crude in accordance with the stipulated schedule over a period of 22 years. The net price of crude oil f.o.b. Kharg Island or other place of loading shall be \$1.35/bbl subject to increase or decrease.

- (a) by \$0.02/bbl for each full degree variation in gravity above 34.0° API gravity or below 34.9° API gravity, and
- (b) by the amount of any increase or decrease in the arithmetic average existing as of the date of the Agreement, viz. 18-11-65, of the f.o.b. posted prices for 31.0°/31.9° API gravity Kuwait crude oil f.o.b. Min-al-Ahmadi and 34.0°/34.9° API gravity Arabian

Crude oil f.o.b. Ras Tanura and 31.0°/31.9° API gravity Gach Saran crude oil f.o.b. Kharg Island, as posted by the major international oil companies mentioned in the Agreement. This average of the f.o.b. posted prices as of the date of the Agreement is \$1.67334/bbl.

The Agreement also provides for credit terms as stipulated therein. Substitution by the Supplier of Darius crude by another crude is also permitted under a force majeure clause, as provided in Clause 10.7 of the Crude Oil Sales Agreement.

5.3.23 The crude oil will be transported through the Shipping Corporation of India on terms and conditions reported to be under negotiation.

5.3.24 The price of \$1.35 per barrel represents a discount of \$0.28 per barrel, as the posted price of Darius crude at Kharg Island is \$1.63 per barrel. There is no provision in the Agreement other than that mentioned in the following paragraph specifically for adjusting the prices according to the discounts off posted prices offered by other suppliers from time to time. This is significant particularly because the Agreement has been concluded for a period of twenty-two years and the trend of crude prices is expected to be downward. As is well known, the posted prices of crudes to which the Agreement refers remain unchanged for long periods and the effective prices are determined only by discounts for variations in which no adjustment has been provided for in the Agreement. Moreover, the variations provided for at (b) of para 5.3.22 are related to three varieties different from Darius crude (which is to be supplied under the contract). Presumably this has been done to take note of the general trend of crude prices in the region.

5.3.25 Clause 4.4 of the Agreement provides that the price of crude oil shall be no less favourable to buyer than the price of Darius crude oil delivered under an agreement entered into with another purchaser "in circumstances comparable to those in which this Agreement was entered into and with terms of sale comparable to those of this Agreement." In Clause 4.5 there is an identical provision to the advantage of the seller in the event of the buyer purchasing and accepting delivery of crude oil similar to Darius at higher rates. The quoted stipulation is in such wide terms as to leave scope for debate in respect of any variation whatsoever, since neither the terms of sale of any two agreements nor the circumstances in which they are entered into could be exactly comparable, especially in matters such as the quantity contracted for and the period of supply. In our view, Clause 4.4 as worded does not provide sufficient assurance that the price charged under the Agreement will be reduced when transactions take place in the international market at lower rates.

5.3 (f) Haldia Refinery :

5.3.26 The refinery at Halida will have a capacity for processing 2.5 million tons of crude oil per annum. The implementation of this project has been entrusted to the Indian Oil Corporation Ltd., but, the Agreement concluded by the Government of India on the 29th September 1967, with Compagni Francaise D'etude Et De Construction Technip and ENSA of France, and another Agreement, dated the 13th October

1967, concluded with "Industrial export" Foreign Trade State Company of the Socialist Republic of Rumania, provides for preparation of detailed techno-economic studies and conclusion of contracts for technical assistance and import of certain equipment/materials; the cost of which will be financed from the French and Rumanian credits. The refinery is expected to be commissioned late in 1970.

5.3.27 A Crude Oil Sales Agreement concluded on the 29th September, 1967, between the Government of India and Total International Ltd. of Bermuda provides for supply of 9 million tons of light Iranian crude (32.0°—35.9° API gravity) at the rate of 1 million tons or 50 per cent of the throughput of the refinery per annum, whichever is greater, from the date of commencement of commercial operations. After 6 million tons have been supplied Government of India have the right to substitute indigenous crude oil provided the remaining 3 million tons are purchased during the five subsequent years. The f.o.b. price of the crude oil at Kharg Island shall be the average of the prices posted by CFP (Compagnie Francaise Des Petroles), BP Trading, Esso International, Iran California, Texaco (Iran), Shell International, and Mobil Middle East, less a rebate of 40 US cents per barrel and such further rebates as may be mutually agreed upon between the buyer and the seller. At the date of signature of this Agreement, the afore-mentioned price at Kharg Island is US \$1.79 per barrel for gravity of 34.0°—34.9° API with 2 US cents per barrel increases for each full degree of gravity increase above 34.0 API and decrease by 2 US cents per barrel for each full degree of gravity below 34.9° API.

5.3.28 There are stipulations in Clause V (Price) of the Agreement, which successively limit the scope for adjustment in prices. Initially, the Clause provides for "such further rebates as may be mutually agreed upon between Buyer and Seller". Further, it provides that if "the price per barrel of the Iranian light crude oil is substantially out of line with other prices prevailing in the area for similar long term contracts for the purchase and sale of Iranian light crude oil, then the parties shall consult together to find an equitable solution." The concluding sentence of this Clause provides that "neither party shall have the right to request such change until 500,000 tons of crude oil has been delivered under the Agreement and six months at least have elapsed since the first delivery of crude oil has been made." The underlined stipulations are capable of diverse interpretations. It is not easy to establish complete similarity between any two contracts. Again, the net f. o. b. of \$1.39 (\$1.79 minus \$0.40) is payable for 500,000 tons of crude oil in any case. This means that net f. o. b. of \$1.34 per barrel, conceded since Aug./Sept., 1969, by the Bombay and Visakhapatnam refineries and the further reduction thereof to \$1.28 per barrel, now demanded by Government, cannot be applied to 500,000 tons purchasable under the agreement in respect of the Haldia refinery.

II. Major problems in regard to Import of Crude Oil and its Cost

5.4 The supply of crude is the main theme of every agreement for the establishment of a refinery, whether wholly owned by a foreign company or established in collaboration with Indian interests. While an assured supply of crude is an essential pre-requisite of a refinery project, the rights and obligations of the foreign supplier as stipulated in the supply agreements have an important bearing on the cost of crude, the price

structure of the products and indeed on the entire economics of the refineries. The agreements with Burmah-Shell, Esso and Caltex give them the freedom to make their own arrangement for import of crude oil from their own sources of supply. There is an added stipulation in the case of the last two companies to the effect that the purchases of crude oil will be made at world market rates prevailing at the time and place of shipment. A similar obligation, though not specifically included in the Agreement, is deemed to devolve on Burmah-Shell. In respect of the other refineries, the supply of crude oil is governed by contractual commitments. The Modification of the Formation Agreement for CRL contemplates termination by October, 1970, of the Crude Supply Contract concluded by Phillips with the Standard Oil Co. of California. Thereafter, Phillips will continue to act as agents of CRL and to have the right to arrange for imported crude oil supply but shall be obligated to substitute a crude oil or a blend of crude oils that may be suggested by the Government of India. In the event of the Government of India offering a quantity of Rostam crude from Iranian offshore fields, Phillips shall be entitled to offer out of its own share of the same Rostam crude a quantity equivalent to but not higher than that offered by the Government of India, at the same price. If at any time suitable indigenous crude becomes available, Government have a right to ask CRL to buy that crude in substitution of other than indigenous crudes in use. The Formation Agreement relating to the establishment of the Madras Refinery also entitled the Government of India to substitute in the Madras Refinery a crude oil or blend of oils instead of Darius crude on which the refinery is based if no substantial net economic disadvantage is thereby suffered by the refinery, no significant modification of the refinery is entailed and no uncured breach of the Crude Oil Sales Agreement is involved. The Crude Oil Sales Agreement in respect of the Haldia Refinery is for a specified quantity and provides for termination by either party on twelve months notice in the event of the price of crude oil being out of line with other prices prevailing in the area for similar long term contracts, subject to the stipulation quoted in para 5-3-28.

5.5 Marine freight is a significant portion of the cost of crude. Transport of crude for the Madras and Haldia refineries is to be arranged by the Government. For CRL, transportation of crude is made at fixed rates per barrel specified in the contract of Affreightment referred to in para 5.3.18 and valid for five years from the date of commencement of commercial operations of the refinery (i.e. from September, 1966) and extendable for five periods of one year each. Burmah-Shell, Esso and Caltex make their own arrangement for transportation of crude and receive foreign exchange allocation towards marine freight at INTASCALE with the AFRA Index applicable from time to time, but, it is not known whether the actual freight incurred by the suppliers is also determined on the same basis.

5.6 The arrangements for the import of crude oils for all the coastal refineries bring out in old relief the primary motivation of the oil companies to secure an outlet for the crudes produced by their principles and/or their affiliates and their subsidiaries. To safeguard the Indian interests, there is a semblance of obligation under the older agreements for purchases to be made at the prevailing world market rates and the relatively new agreements provide for adjustment in prices to take account of variations in prices from other sources of supply, but the stipulation regarding comparability of circumstances, under which higher discounts are offered, would be difficult to fulfil. The history of the past transactions, however, shows beyond doubt that the full benefit of the prevailing rates of discounts have not invariably and promptly been realised.

5.7 The above account of the system for import of crude oil shows that each coastal refinery is tied to one or more foreign supplier, with which its operations are interlocked in one form or the other. As is well-known, the international petroleum industry is dominated by the so-called international 'majors', which own over half the world's crude production. Generally, these companies (or groups of companies) are the top holders of a number of associated and subsidiary operating concerns. Each of them is a separate legal entity but their boundaries may often overlap those of others. Their important activities are well co-ordinated to mutual advantage. Each of these companies is vertically integrated, producing most of its own requirements of crude or buying it from another member of the group on long term arrangements, owning or controlling most of its own transport facilities on short or long terms charters operating their own refineries in different production and consumption centres and distributing the end-products through its associated marketing companies in all parts of the world. Even separate 'Groups' are organizationally linked through joint ownership of subsidiaries or through long-term supply or marketing arrangements. The result of the integrated structure is that a very large portion of the crude oil that enters into international trade is not sold by free competition but is transferred from producing to refining and marketing affiliates in quantities that match the absorptive capacity of the markets for products and at prices that the respective markets can bear. Thus, the prices at which imports are arranged from tied sources can hardly be termed as the genuine market prices in the commercial sense. The seemingly competitive prices offered by the new comers, as in the case of the Cochin, Madras and Haldia refineries, are mostly intended to secure a foothold in new markets or to increase their share in such markets.

5.8 To overcome the handicaps inherent in a situation, where crude imports are governed by formal agreements with companies having integrated operations, which by their very nature inhibit competition in price, we would suggest the following steps :—

- (a) The entire crude requirements of the country should be imported through a single agency, which should result in substantial economy in large scale bulk purchases. This could be achieved by inviting competitive bids, whether public or selective, for supply of crude oil(s) over a specified period of time. This system is followed by Government agencies in OECD countries; viz., Austria, Canada, Denmark, France, West Germany, Greece, Italy, Japan, Luxemburg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and UK, vide Oilgram Price Service No. 28 of the 10th February, 1969. The system of competitive tenders is also followed by the State Oil Agencies in Brazil (Petrobras), Uruguay (ANCAP), Argentina (YPF) and Chile (ENAP).
- (b) The existing agreements may be re-negotiated, to remove any impediments in the way of crude being imported into the country at world competitive prices.

5.9 The f.o.b. prices of crude are subject to discounts which vary from time to time. The table below shows the rates of discounts applied in the case of the principal crudes imported by the refineries in India :

(Discounts in cents per barrel)

	Iranian Crude		Saudi Arabian Crudes			Qatar	Kuwait
	Agha Jari	Darius	Arabian Light	Arabian Medium	Arabian Heavy		
(i) API Gravity	34-34.9	34-34.9	34-34.9	31-31.9	27-27.9	41-41.9	31-31.9
(ii) 1960, June	19.0	..	19.0	3.0	16.0	19.0	..
(iii) 1962, January	21.0	..	21.0	3.0	16.0	21.0	..
(iv) 1962, March	21.0	..	21.0	3.0	16.0	21.0	..
(v) 1965, January	23.0	..	23.0	3.0	16.0	21.0	25.0
(vi) 1965, July	30.0	..	..	3.0	..	..	25.0
(vii) 1966, January	38.0	..	..	21.0	..	..	25.0
(viii) 1968, May/June	41.0	..	..	24.0	..	..	28.0
(ix) 1969, August**	45.0	..	..	..	..	..	..
(x) Posting as on 15.5.69 cents/bbl.	179.0	163.0	180.0	159.0	147.0	195.0	159.0
Port of Shipment	Kharg Island	Kharg Island	Ras Tanura	Ras Tanura	Ras Tanura	Umm Said	Minah-Ahmed

**Reported offer by Burmah-Shell effective the 1st August, 1969, and Calcut effective the 1st September, 1969

5.10 The discounts have mostly been secured as a result of public criticism and the influence exercised by the Government by virtue of their right to decide allocation of foreign exchange. The gap between the f.o.b. price of crude and its actual cost of production is so wide that changes in costs of production have virtually no bearing on the f.o.b. prices. The cost of production of crude is variously estimated at 20 to 25 cents per barrel, whereas the f.o.b. price of a typical crude, after discount, came to \$1.34 per barrel until recently. The Governments of the producing countries are reported to be levying a duty of 78 to 85 cents per barrel exported. Thus there is a wide margin between f.o.b. price and f.o.b. cost which shows that there is scope for larger discounts.

5.11 Moreover, the world supply and demand position of crude has undergone a radical change in recent past indicating the probability of a marked downward trend in prices of Middle East crude over the next few years. A study reported in Petroleum Intelligence Weekly (PIW), New York, dated the 16th June, 1969, concludes that the total demand for Middle East crude is not likely to grow by more than a little over 4 per cent per year between now and 1975. This contrasts with a 10 per cent average annual growth that the Middle East has become accustomed to in recent years (from 1960 to 1968). Europe, which in 1968, received a little over one-half of all its imports from the Middle East and one-third from Africa, is now expected to receive over 70 per cent of all its additional requirements from Africa by 1975. The Report goes on to say that the production of oil in the Far East is also on the increase. The relatively new production in Africa and the Far East has an economic advantage because of its proximity to the main markets of consumption and these new crudes are better able to meet the lower sulphur levels demanded by most major consuming countries. Large supplies available from Libya which is a new source and further additions, possibly of superior quality, expected from Nigeria, have greatly weakened the competitive position of Middle East producers. The closure of Suez Canal has further added to their difficulties, while the offtake from some of the consuming countries is limited partly by an increase in domestic production of crude and partly by import cuts imposed for balance of payment reasons. It is expected that all these factors will continue to exert a downward pressure on prices of Middle East crude. The Governments of the producing countries will no doubt resist a reduction in export prices, but such resistance cannot be maintained beyond the point at which it will defeat the objective, equally vital to them, of maximizing their production and exports of crude. An international oil consultant, Mr. Walter Newton, has observed that the producing countries may well be forced to offer tax rebates to oil companies as incentives for increasing production.

5.12 During our discussions with the representatives of the foreign oil companies in April, 1969, we found that they were in broad agreement with the above assessment of the world situation. They admitted that taking advantage of the changing world situation Japan had extracted successive concessions from the oil companies with the result that the advantage which India had enjoyed over Japan for many years in the matter of the f.o.b. cost of crude had now been virtually eliminated. The suppliers had apparently good economic reasons in the past for charging a lower price to India than to Japan and the representatives of oil companies could not explain to us why these reasons had now ceased to weigh with their parent companies. During our discussions we requested the oil companies to obtain for us from their principals data as to the prices

charged by the latter to other buyers, emphasising that it was their duty to make such data available in view of the obligation of the refineries in India to purchase their crude at world competitive prices. We also requested them to negotiate with their principals for a restoration to the full extent of the advantage which India had enjoyed for many years over Japan and to indicate to us the extent to which they would be prepared to reduce the f.o.b. prices of crude below the then existing level of \$1.38 per barrel of Iranian Light crude. It was explained to them that if, despite their obligation to pay no more than world competitive prices for their crude imports, they failed to furnish data regarding prices charged by their suppliers to other buyers, the Committee would have no alternative but to form a judgement about the appropriate level of prices in the current world conditions on the basis of information available from other sources. The representative of Burmah-Shell agreed with the Committee that in view of the changes in the world situation and the price reductions secured by Japan, there was reasonable ground to expect a reduction in the price charged to India. We welcomed this attitude and requested both Burmah-Shell and Esso to consult their suppliers and advise us of the extent to which they were prepared to reduce prices. Burmah-Shell, after consulting its suppliers, informed us on 9th May, 1969, that no reduction was possible and that at the existing level of prices India still enjoyed an advantage over Japan. The Company took no account of the fact that the difference between prices charged to India and Japan had been greatly reduced as compared with what it was in the past. The Company also did not furnish the data asked for by us regarding the prices charged by their suppliers to other buyers. Esso replied that the prices of its suppliers to Esso East refineries ranged from \$1.38 to 1.41/bbl for light Iranian and were \$1.46/bbl for light Arabian and that the crude price to India was favourable. It was a matter of surprise to this Committee that within three months of a formal communication from Burmah-Shell and Esso that they had failed to secure any reduction in the existing prices, Burmah-Shell informed Government that their suppliers had agreed to a reduction of 4 cents per barrel. Caltex followed with a similar reduction, and Esso also announced a reduced price of \$1.35 per barrel. We regret to note that we received no communication from Burmah-Shell or Esso to explain this change of attitude on their part or on the part of their suppliers.

5.13 In these circumstances we have to make use of the material available from other sources to form a judgement about the current level of world prices. According to the Petroleum Intelligence Weekly (PIW) of the 17th March, 1969, Walter Newton, an international oil consultant, in his testimony before a US Senate anti-trust sub-committee predicted a decline in the Persian Gulf crude oil prices over the next five years to \$1.20 for light crudes, \$1.15 for medium crudes and \$1.10 for heavy crudes. As early as 1968, Platt's Oilgram Price Service No. 127 of the 1st July, 1968, reported that the going rates for ten-year sales contracts were \$1.20 for Heavy Iranian, \$1.26 for Light Iranian, \$1.19 for Kuwait and \$1.20 to \$1.15 for Sassan. Some informed sources are reported in Platt's Oilgram Price Service No. 138 of the 18th July, 1969, to have stated that net selling prices for new business (after discounts and credit terms, etc.) are now in the range of \$1.28 for Light Iranian, \$1.20 for Heavy Iranian, \$1.18 to \$1.20 for Sassan, and \$1.15 to \$1.18 for Kuwait. The same issue refers to big import contracts for Sassan crude oil with 2 per cent sulphur content at \$1.25. We have also taken note of certain specific offers or deals mentioned below.

(a) Light Crudes :

According to PIW of the 28th October, 1968, Iranian Light was offered to Pakistan by a tenderer at \$1.29 per barrel. In November, 1968, a company in Paris offered to the Ministry of Petroleum and Chemicals, Government of India, Light Arabian at \$1.29 per barrel and in October, 1968, IOC received an offer for Agha Jari at \$1.29. In June, 1969, CRL received a firm offer from an established continental oil company for supply of Agha Jari crude at \$1.28 per barrel. All these quotations may be compared with the price of \$1.38 per barrel for Agha Jari crude which the oil companies in India were paying until recently. We have taken no account of those quotations reported in the Platt's Oilgram Price Service or the PIW which related to barter sales, or sales on concessional credit terms or offers made by Indian firms acting as agents of foreign suppliers. For example Platt's Oilgram Price Service No. 247 of the 23rd December, 1968, reported an offer by British Petroleum the Uruguayan State Oil Agency (ANCAP) tender of Iranian Light (34.34.9 API) f.o.b. Kharg Island at \$1.34 per barrel. We have ignored this quotation for our purpose as it is accompanied by certain "sweeteners" in the form of a dollar loan to Uruguayan manufacturers and an interest free loan for studies to promote ANCAP export sales, especially in Africa.

Having carefully considered the available evidence about world price trends, we have come to the conclusion that under current world conditions a fair discount on the posted price of \$1.79 per barrel of Iranian light crude f.o.b. Kharg Island would be 51 cents, which means a net of f.o.b. price of \$1.28 per barrel. The same discount should apply to Arabian light.

(b) Medium Crudes :

The difference in discounts for Light Iranian and Arabian Medium received by the oil companies in India from May/June, 1968, is 17 cents per barrel (41 cents for Agha Jari compared with 24 cents for Arabian medium). We have recommended a discount of \$0.51 per barrel for Agha Jari and maintaining the same differential, the discount for Arabian medium should be \$0.34 per barrel; the net f.o.b. being \$1.25 per barrel (\$1.59 posted minus \$0.34 discount). PIW of the 3rd February, 1969, has reported an offer by some major companies to the Greek Government of Arabian medium (31.31.9 API) at \$1.29 f.o.b. Ras Tanura, but this offer contains a number of "sweeteners" in the form of loan, subsidy and technical services. Platt's Oilgram Price Service Special Supplement No. 113-P of the 12th June, 1969, refers to Esso's offer of Arabian medium (30.30.9 API) at \$1.28 f.o.b. against Argentina State Oil Agency (YPF) tender with 180 days' credit, but payment on presentation of shipping documents would earn 3 per cent discount on c.&f. price. Esso also buys crude from YPF and it is not known how far the above quotation is influenced by this relationship between the two parties. A third report appearing in Platt's Oilgram Price Service No. 57 of the 24th March, 1969, relates to an offer by Chevron of Arabian Medium to the Argentina State Oil Agency (YVF) at \$1.22 f.o.b. Ras Tanura, with 180 days' credit from notification of shipping date of each cargo. The API gravity is 29.29.9 with escalation of 2 cents per barrel per degree. The f.o.b. quotation for 31.31.9 API Arabian Medium would be \$1.26 per barrel. Since this is based on 180 days' credit, the cash quotation would be somewhat lower. Thus, the f.o.b. price of \$1.25 per barrel, based on a discount of \$0.34, recommended by us is reasonable.

(c) Heavy Crudes :

Arabian Heavy (27-27.9 API) is posted at \$1.47 f.o.b. Ras Tanura and Iranian Heavy (31-31.9 API) at \$1.63 f.o.b. Kharg Island. Neither Arabian Heavy nor Iranian Heavy has been imported during the last three years, prior to which the discount received on the former from June, 1960, to January, 1965, was 16 cents per barrel. During the later period the discount received on Iranian Light increased from 19 to 23 cents and thereafter it increased to 41 cents. There is evidence of a substantial decline in the prices of heavy crudes in sympathy with those of light crudes during the last three years. Platt's Oilgram Price Service No. 57 of the 24th March, 1969, reported an offer by Chevron of Arabian Heavy (27-27.9 API) at \$1.15 f.o.b. Ras Tanura with 180 days' credit but Platt's Oilgram Price Service Special Supplement No. 113-P of the 12th June, 1969, reports an offer to Argentina State Oil Agency of Arabian Heavy of the same gravity by Perez Companac at \$1.169 f.o.b. Ras Tanura with 180 days' credit from loading date of each cargo but with 5 cents discount for cash payment. Taking the lower of these two quotations and adjusting them for cash basis the current rate of discount may be taken at \$0.37 per barrel, resulting in a net f.o.b. price of \$1.10 per barrel of Arabian Heavy (27-27.9 API). As regards Iranian Heavy, according to Platt's Oilgram Price Service Special Supplement No. 113-P of the 12th June, 1969, Perez Companac quoted \$1.259 f.o.b. Kharg Island against the same tender to Argentina State Oil Agency for Iranian Heavy (31-31.9 API) with 5 cents per barrel discount for cash payment, indicating a net f.o.b. on cash basis, of \$1.20 per barrel f.o.b. Kharg Island i.e., a discount of 43 cents. We accordingly recommend a discount of 37 cents per barrel for Arabian Heavy (27-27.9 API) and 43 cents per barrel for Iranian Heavy (31-31.9 API).

(d) Kuwait Crude (31-31.9 API) :

The posted price is \$1.59 f.o.b. Mina-al-Ahmadi and the discount applicable from May/June, 1968, is \$0.28 per barrel, the net f.o.b. price being \$1.31. From the same date, the net f.o.b. price of Agha Jari was \$1.38 (\$1.79 posted minus \$0.41 discount). The difference in the net f.o.b. prices of Kuwait and Agha Jari was, therefore, \$0.07 per barrel, which should be maintained. The net f.o.b. for Agha Jari after discount recommended by us will be \$1.28; therefore, the net f.o.b. of Kuwait should be \$1.21 (which means a discount of 38 cents per barrel). Platt's Oilgram Price Service No. 247 of the 23rd December, 1968, reported an offer of Kuwait crude (31-31.9 API) by British Petroleum at \$1.24 f.o.b. Mina-al-Ahmadi. Allowing for other 'sweeteners' in the offer, viz. credit facilities and loans, the net f.o.b. should be near \$1.21 per barrel. According to Platt's Oilgram Price Service Special Supplement No. 113-P of the 12th June, 1969, Atlas offered to Argentine State Oil Agency Kuwait crude (31-31.9 API) at \$1.25 f.o.b. Persian Gulf, with 180 days' credit and with a discount of 4 cents per barrel on c.&f. price for cash payment. Thus, the current rate of discount on posted prices of Kuwait crude is 38 cents per barrel, indicating a net f.o.b. price of \$1.21 per barrel.

(e) Darius Crude (34-34.9 API) :

The posted price of Darius Crude is \$1.63 per barrel. The first consignment of about 38,000 tonnes was received by the Madras Refinery in February, 1969, at an f.o.b. price of \$1.35 per barrel, i.e. at a discount of 28 cents. The f.o.b. price for Agha Jari Light Iranian at that time was

\$1.38 per barrel. If the same difference is maintained between the two crudes, a reduction in the f.o.b. price of Light Iranian to \$1.28 would warrant a reduction in the f.o.b. price of Darius to \$1.25. At this price the discount of the posted price would be 38 cents. During January to June, 1968, Japan paid an average f.o.b. price of \$1.22 per barrel for average API 33.4 and average sulphur content of 2.48 per cent, vide PIW of the 27th January, 1969. The crude oil sales Agreement in respect of the Madras refinery stipulates 34.00 API gravity and total sulphur by weight of 2.40 per cent. Allowing for gravity differential, the average price for 34.34.9 API would be \$1.24. The PIW of the 9th September, 1968, reported some sales of Darius crude to Japan, as low as \$1.17 per barrel, i.e. 46 cents below the posted price, but details of such sales are not available and we have, therefore, ignored this report. On the basis of the other evidence available to us, we recommend a discount of 38 cents for Darius crude of 34.34.9 API, but we feel that there is a strong probability of a further increase in the discount for this crude in the near future. In the light of these reports, a discounts of \$0.38 on this crude would be justified.

5.14 To summarize, we recommend the following discounts on the specified or similar crudes :—

Description of Crude	Posted price in \$/bbl	Discount off posted price in \$/bbl
(i) Iranian Light-Agha Jari (34.34.9 API)	1.79	0.51
(ii) Arabian Light (34.34.9 API)	1.80	0.51
(iii) Arabian Medium (31.31.9 API)	1.59	0.34
(iv) Arabian Heavy (27.27.9 API)	1.47	0.37
(v) Iranian Heavy (31.31.9 API)	1.63	0.43
(vi) Kuwait (31.31.9 API)	1.59	0.38
(vii) Darius (34.34.9 API)	1.63	0.38

The discounts recommended above may soon become inadequate in view of the downward pressure on the prices of Persian Gulf crudes. We recommend, therefore, that Government should maintain direct contact with foreign suppliers (not merely with their local agents) and also take steps to build up an independent system of intelligence about the current rates of discount and review the discounts received by the oil companies in the light of world trends from time to time.

CHAPTER SIX

Price of Indigenous Crude Oil

6.1 Assam Crudes :

6.1.1 The designed capacity of the Assam Oil Companies' (AOC) refinery at Digboi is 0.7 million tonnes, but, the usable capacity is 0.529 million tonnes per annum. The company obtained the following quantities of indigenous crude oil from various sources from 1965 to 1968.

	('000 tonnes)			
	1965	1966	1967	1968
(i) AOC's own Digboi field . . .	152	148	136	117
(ii) Oil India Ltd. (OIL) . . .	348	360	403	402
(iii) Oil and Natural Gas Commission (ONGC).	..	..	..	2
	500	508	539	521

AOC is a vertically integrated company and it is, therefore, difficult to determine the cost of production of crude obtained from its own oil-field. However, an estimate made for 1968, inclusive of depreciation, amortization, other overheads and royalty of Rs. 10.00 per tonne, comes to Rs. 103.05 per tonne.

6.1.2 The price of crude supplied by OIL is determined in accordance with the Second Supplemental Agreement of the 27th July, 1961, between the Government of India, the Burmah Oil Company Ltd., Oil India Ltd., which provides for supply to AOC upto a maximum of 435,000 tons per annum. The cost of OIL crude to AOC (excluding supplies under Clause 20 of the Promotion Agreement of the 14th January, 1958), has been as under :—

	(Rs./tonnes)				
	1964	1965	1966	1967	1968
(i) OIL's crude prices inclusive of retrospective price adjustment.	126.44	112.37	100.96	97.82	95.01
(ii) Assam Sales Tax charged on supplies to AOC @ one paise per liter.	11.83	11.87	11.88	11.81	11.80
(iii) Total of (i) & (ii) . . .	138.27	124.24	112.84	109.63	106.81

6.1.3 The long term supply and price arrangement in respect of ONGC crude oil is still under negotiation.

6.1.4 The Gauhati refinery with an installed capacity of 0.75 million tonnes and the Barauni refinery with an installed capacity of 2.00

million tonnes are also based on Assam crude and obtained the following quantities from OIL and ONGC from 1965 to 1968 :—

		('000 tonnes)			
		1965	1966	1967	1968
(i) Gauhati					
(a) O.I.L.		791	717	759	768
(b) O.N.G.C.		..	22	33	36
TOTAL		791	739	792	804
(ii) Barauni					
(a) O.I.L.		632	1052	1571	1595
(b) O.N.G.C.		..	..	..	11
TOTAL		632	1052	1571	1606
(iii) Total of (i) & (ii)		1423	1791	2363	2410

The projected expansion of capacity at Gauhati is upto 1.1 million tonnes and at Barauni upto 3 million tonnes. OIL is committed to supply upto 2.75 million tonnes to Gauhati and Barauni refineries, for which the requisite transportation capacity is said to be available. To meet the increased demand when the expansion of Gauhati and Barauni refineries is completed, additional crude conditioning plant and booster pump station facilities will be required to be provided by OIL and ONGC and have to be planned at least three years in advance. The price of crude supplied to Gauhati and Barauni is fixed by Government on the basis of import parity, the deficit/surplus, if any, to meet the profit guaranteed to OIL in terms of Clause 9(c)(e) of the Second Supplemental Agreement of the 27th July, 1961, is settled directly between Government and OIL. The details of such payments since 1964 are as under :

		(Rs./tonnes)				
		1964	1965	1966	1967	1968
(i) OIL's total crude price entitlement inclusive of retrospective price adjustment (if any) and sales Tax.		136.37	119.97	106.94	103.00	100.12
(ii) Average price paid by Gauhati and Barauni refineries on the basis of import parity.		75.06	70.20	92.28	103.00	100.57
(iii) Total amount paid by Government of India to OIL to reimburse the difference of (i) & (ii) on total supply of crude oil to Gauhati and Barauni refineries.		65.84	69.23	26.34	(Rs./million)	
				

In terms of clause 9(c)(b) of the Second Supplemental Agreement, a price discount of Rs. 5.02 million is refundable to the Government for the year 1968. It is expected that in future while the Gauhati and Barauni refineries will continue to pay a price based on import parity, they would be entitled to receive a lower price. The difference will accrue to Government and be set off against the subsidy payments made in the past.

6.2 Gujarat Crudes :

6.2.1 The Gujarat refinery with an installed capacity of 3.00 million tonnes (likely to be expanded to 4.0 million tonnes by 1972) is based on crude oil produced by ONGC ex-Ankleshwar, Kalol, Navagam, Cambay, Dholka, Kathana and Mehsana oilfields. The refinery obtained the following quantities from ONGC since 1965 :

Year	'000 tonnes
1965	151
1966	1249
1967	1729
1968	2790

6.2.2 The price is based on import parity of light Iranian Agha Jari crude. The following average prices have been paid by the refinery since 1965 :

	(Rs./tonnes)
1965	78.11 (Ankleshwar)
1966	103.27 "
1967	115.52 "
	97.93 (Kalol)
	98.46 (Navagam)
1968	114.30 (Ankleshwar)
	98.82 (Kalol)
	98.46 (Navagam)
	93.68 (Kathana)
	104.43 (Dholka)

6.2.3 The quantities of Gujarat crude oils supplied to the Bombay refineries are indicated in para 5.2. The price charged to Bombay refineries is based on the landed costs of Aramco and light Iranian (Agha Jari) crudes on a 50:50 ratio and sales tax etc. According to ESSO, the prices paid for Ankleshwar crude from January, 1966 to April, 1968, ranged between Rs. 80.7 and Rs. 121.91 per tonne.

6.3 IOC's Observations on Indigenous Crude Oils :

6.3.1 IOC has represented that the Nahorkatiya crude is highly aromatic and paraffinic. It requires more processing and gives a product yield of lesser value. The price differential between Agha Jari and Nahorkatiya crudes is only 2 cents per degree API amounting to about Rs. 2.40 per tonne, whereas the reduction in yield per tonne is Rs. 50.00. Nahorkatiya crude is capable of giving only 2.3 per cent of lube oil against 10 per cent of Agha Jari. Nahorkatiya crude also produces diesel of low cetane number, necessitating use of costly additives to bring the product to specification. IOC has, therefore, asked for a suitable reduction in price of Nahorkatiya

crude. We give below the data supplied by OIL regarding the cost of production and transportation of its crude :

	(Rs./tonne)		
	1966 (Actual)	1967 (Actual)	1968 (Estimated)
(i) Cost of production including depreciation, amortization, royalty etc.	47.23	40.73	43.34
(ii) Cost of transportation	32.24	42.08	26.47
(iii) Total cost exclusive of income tax and dividend	79.47	82.81	69.81

6.3.2 The following data have been supplied by ONGC regarding the cost of Ankleshwar crude oil :

	(Rs./tonne)			
	1965-66	1966-67	1967-68	1968-69 (Estimated)
(i) Well-head cost	40.82	37.86	51.28	59.00
(ii) Transportation and handling charges, Octroi and sales tax.	25.29	20.61	18.26	8.50
(iii) Interest on loan		4.04	5.91	8.00
(iv) Total cost	66.11	62.51	75.45	75.50

Our terms of reference do not include the cost of production of indigenous crude and we have, therefore, not examined the above data.

CHAPTER SEVEN

Control Over Prices

7.1 The private oil companies have pleaded for removal of price control. Burmah-Shell have stated that control is not desirable 'in the national interest or from the point of view of the consumer'. In the company's opinion, 'such controls stifle competition, distort product values and cause considerable amount of unproductive work both for Government and the Industry'. The company would like the prices of products to be determined solely by the inter-play of supply and demand.

7.2 Enough has been said elsewhere in this report about the virtual absence of free competition in this industry, whether in regard to the prices of its raw material or its products. In these circumstances it is incumbent on Government to exercise some measure of control over prices in order to safeguard the interest of the consumer and to ensure proper use of foreign exchange. Indeed we feel that the existing scheme of control needs to be streamlined and we have made certain recommendations to this and later in the report.



CHAPTER EIGHT

Determination of Ex-Refinery Prices

8.1 The agreements concluded by the Government of India with Burmah-Shell, Esso and Caltex permit the oil companies to maintain the prices of their products ex-refinery at a level not higher than the landed cost of comparable products. This is called "Import parity". On account of this contractual obligation, prices of petroleum products have hitherto been based on import parity not only for the coastal refineries using imported crude but also for the inland refineries which process indigenous crude.

8.2 The Committee on Public Undertakings [Third Lok Sabha in paras 76 and 82 of its 35th Report concerning the Indian Oil Corporation Ltd. (Marketing Division)] commented adversely on the existing manner of determining the ex-refinery prices of major products on the principle of import parity. In para 5.67 of its 50th Report, the Estimates Committee (1967-68) (4th Lok Sabha), expressed the same view. These comments have raised doubts about the propriety of continuing to base the prices of petroleum products on the landed costs of imports when imports of many products have ceased and substantial refining capacity has come into existence in the country.

8.3 We have, therefore, examined whether there are any practical alternatives to import parity for determining the ex-refinery prices of products.

8.4 The alternatives are to base the prices of products on—

- (a) the actual cost of crude oil plus the operating costs plus a fair margin of profit, or
- (b) the actual cost of crude oil plus a fair refiner's margin.

The refiner's margin is the gross difference between the value of the final product and the cost of raw materials. It would include both the operating cost and the profit margin.

8.5 The cost of crude varies according to quality and the source of supply. As indicated by the companies, in 1968 the cost per tonne of imported crude was Rs. 99.23 for BSR, Rs. 96.46 for ESRC, Rs. 101.12 for CORIL and Rs. 94.14 for CRL for the year ended August 31, 1968. In 1967-68, the average cost per tonne of indigenous crude was Rs. 103.52 to the Gauhati, Rs. 104.40 to Barauni and Rs. 114.20 to Koyali. The cost of indigenous crude is based on import parity and the average cost to the inland refineries is higher partly because it includes an element of notional transport cost. By and large there would be no practical difficulties in arriving at an estimate of crude cost which would be representative of the industry as a whole, though for the purpose of such estimate, the cost of indigenous crude also will have to be based on the import parity of crude, since by our terms of reference, we are precluded from going into the cost of production of indigenous crude. The determination of a fair refiner's margin or of fair operating cost and of a fair margin of profit separately would also present

no practical problem. The refining industry is not the only one where an apportionment of the total costs to individual products is difficult, it does not, however, follow from this that in the case of such an industry, the prices of its products must be fixed with no regard to its overall costs and entirely on the basis of an extraneous factor like import parity. However, if a fair price for a petroleum product worked out on this basis, comes to a lower figure than import parity, it would be difficult to enforce such a price consistently with the commitment under the Agreements with the oil companies to permit them to maintain prices at a level not exceeding import parity. This commitment, therefore, makes it impracticable to adopt either of the two alternatives mentioned above as a basis for determining fair prices of products.

8.6 The oil companies have tried to make out a case for adhering to import parity as the basis of price fixation, on the following grounds (our comments are given within brackets) :—

- (i) A major portion of petroleum products consumed in the country is still derived from imported crude oils. This proportion will remain unchanged for some more years. According to a study made by the Indian Institute of Petroleum, the total refining capacity required in 1975 will be 34.00 million tonnes and the available information today is that indigenous crude production on land and off-shore in 1975-76 will be about 12.00 million tonnes only. Thus imported crude oil will continue to form the major part of the total crude oil consumption for some more years. The cost of imported crude is determined on import parity and even the indigenously produced crude is priced on import parity. Therefore, it appears reasonable to continue to apply the same principle to the determination of the ex-refinery prices of the products processed indigenously. (We are unable to see why indigenous crude should be priced on the basis of import parity for all time. Further, even if the cost of crude were governed entirely by world factors, it is difficult to understand how this would justify ignoring the cost of refining in the indigenous industry. With import parity as the sole basis of price fixation, the relative efficiency of different units escapes scrutiny altogether.)
- (ii) The products processed indigenously serve to replace imports from the Persian Gulf area, which is our nearest source of supply in the Middle East, their replacement cost is the cost of imports from the aforesaid Middle East Source. The import parity price itself has the merit of valuation both in terms of the principle of replacement cost and in terms of the cost of marginal supplies. Moreover, marginal imports will always be necessary. The application of import parity to indigenously processed products will obviate the creation of the dual pricing systems with its consequential complications. (Replacement cost has no great relevance to a situation in which no imports are taking place or are likely to take place. Where imports are marginal, any problem arising from their cost being higher or lower than domestic costs will also be marginal and can be solved otherwise than by resorting to a dual price system.)
- (iii) The prices built on the basis of postings in the Persian Gulf with discounts at the going rates, wherever applicable, offer a fair basis to the refineries as well as the consumers. (We would

agree that the world prices of products afford a fair basis if we could be sure that such prices are determined by free competition.)

- (iv) This system provides incentive for improving efficiency of operation and development of new products. It instils competition amongst the different refiners and provides a reasonable basis of evaluating the economics of fresh investments in refining. (The incentive to improve efficiency would be impaired if each producer were to receive prices based on his cost of production but the incentive can be maintained by fixing one fair price which is applicable to all producers; for this purpose we need not assume the import price to be the only fair price. Indeed, in the case of oil products, it is by no means an easy matter to discover what is really the lowest price at which imports can be effected at a given point of time, especially when no imports are taking place.)

8.7 Clear-cut evidence of discounts on product sales in international trading is not always easy to assemble but the data available tells the tendencies and not the full story. The information about the extent of discounts may be conflicting or the discounting may be admitted to relate to marginal transactions only which, one may argue, are not necessarily representative of the trade as a whole. All the same, the availability of discounts is a fact which can hardly be contested; the posted prices having been reduced to mere shadow prices and nearly ceased to function as the standard prices reflecting actual market conditions. In other words, they merely form the starting point for bargaining for discounts. The situation may vary in different markets and both the size of the order and the type of oil in question are factors that must be taken into account. The actual quantum in a transaction may also depend on the bargaining capacity of the individual importing country, the competitive pressures generated partly from within the oil industry spurred by communist export drive, the activities of the Government-owned organisations and the pressure exercised by new comers to gain entry into an established market.

8.8 The actual imports of major products are rigorously controlled and are now mostly made on rupee payment through the Indian Oil Corporation Limited and the volume of import has steadily shrunk from 1.85 million tonnes in 1966 to 0.57 million tonnes in 1967 and 0.53 million tonnes in 1968; of which kerosene had a dominant share of 78 per cent in 1968. There is no real shopping to get the best prices available, due to restricted supply of free foreign exchange. The level of product discounts had, therefore, to be determined otherwise to arrive at realistic import parity prices.

8.9 In 1968, the total refinery production was of the order of 15.00 million tonnes and by 1974 such production will be nearly doubled. The basis adopted for indigenous production is applicable to imported quantities to ensure uniformity in internal prices to the consumers irrespective of the actual cost incurred on deficit imports. On account of their world-wide trading experience, the private oil companies were requested during discussions to ascertain from their principals the order of product discounts granted over a period of time on supplies from their Middle East sources of supply and of the level of discounts generally prevailing in the world market. They denied knowledge of discounts and reiterated that the product postings, being realistic, should be used for developing the pricing formula. Only one company reported of isolated cases where some

suppliers are known to have spot sales with discount on fuel oil upto 10 per cent and minor discounts (about 0.1 per cent AG) for light diesel oil and high speed diesel oil.

8.10 It will be seen from our comments above that we do not at all regard import parity to be a sound basis of price fixation in the present circumstances. We are nevertheless forced to adopt import parity only because of Government's commitment to the oil companies referred to in para 8.1 above.

8.11 In the absence of a detailed investigation into the cost of production, we are left with import parity alone as the only frame for price fixation. This link-up with the import parity, however, should not be carried to a point at which any adventitious variations in the assumed cost of imports becomes a basis for adjusting domestic prices. For example, a spurt in marine freight resulting from the Middle East crisis, which has no bearing on the cost of production in India, except for the cost of crude, should not become a basis for the oil companies to claim higher prices for their products. Unfortunately, at present import parity is being applied in a literal sense and a freight adjustment account is being maintained under which oil companies are allowed credit for the increases in freights of products which are never imported and to which debits are made for reductions in freights and consequent savings which are never realised. We feel, that after prices are determined for a period on the basis of import parity, such prices should be kept unchanged for that period, except for major known variations in the cost of production actually incurred. The concept of import parity as applied to products at present takes no account of the reductions in the cost of crude resulting from supertankers being brought into use. In future, escalations in prices of the products should be related to variations in both the f.o.b. cost of crude and the freight and the wharfage on crude only. Any adjustment account maintained for this purpose should not refer to variations in the f.o.b. postings, freight and wharfage on products, but only to the variations in the f.o.b. cost of crude and the freight and the wharfage thereon.

8.12 In Chapter 5, we have recommended a net discounted f.o.b. price of US \$1.28 per barrel for light Iranian Agha Jari crude. The rate of discount for other types of crudes is also generally similar to Agha Jari. As the type of crude refined in the country is to a large extent light Iranian, and as the price of indigenous crude is also mostly linked to that variety, subject to adjustment for API gravity, the discount recommended for this variety may be assumed as a fair level of discount applicable to other crudes for the purpose of determination of the quantum of product discounts. The impact of this will work out to Rs. 5.50 per tonne of 7.3 barrels of 42 AG. Our study of the yield of the refineries shows that 1.2 Kl of mix of products is produced on the average from one tonne of crude. In other words, the impact of every 10 cents per barrel of crude will be approximately Rs. 4.6 per Kl of products. The average f.o.b. per Kl of mix of products at the posted prices adopted in our formulation is about Rs. 130. Taking into account refinery's own consumption, loss in refining and the products for which posted f.o.bs. are not available, an average discount of 4 per cent can be reasonably assumed on the current posted prices. This has been adopted in respect of all bulk refined petroleum products, bitumens and naphtha. If the discount on light Iranian Agha Jari crude increases, the discount on the posted prices of products should be increased by 4 per cent for every 10 cents extra discount on crude.

CHAPTER NINE

All Refineries and Main Ports as Pricing Points

9.1 Under the existing system, the ex-refinery prices of bulk refined petroleum products and bitumens are determined on the principle of import parity, the base pricing points being the eight main ports, viz. Kandla, Okha, Bombay, Mormugao, Cochin, Madras, Visakhapatnam and Calcutta. The eight supply areas, corresponding to the main port pricing points, are demarcated on the basis of the 'equal cost lines'; the destination prices being composed of the main port prices and the rail freight from the nearest port to destinations by the most economical mode of transportation. The inland refineries are not treated as the pricing points, but, the landed prices established on import parity at the nearest major port are transplanted at the inland refinery, the cost of inland transportation to destination points being recovered/recoverable by the marketing company according to the national rail freight from the nearest main port and not the actual rail freight from the inland refinery. The Assam supply area is the ninth in this system, where the pricing arrangement is slightly modified to the advantage of the consumers as the destination price is the sum of the landed Calcutta price transplanted at Digboi and rail freight from Digboi/Tinsukia or Calcutta, whichever is lower. In all cases, there is no change in the destination prices when more expensive means of transportation (e.g. road transport) are used or when supply is made from sources other than the nearest main port, to which an upcountry station is linked. This system provides a continuous pricing pattern for the whole country extending inland radially from the eight main ports. However, this system ignores not only the existence of the inland refineries despite their production being almost one-third of the total refining capacity in the country, but also the interest of the consumers in the vicinity of such refineries.

9.2 One alternative to the existing system is to make all refineries as the pricing points. This will mean that some of the major ports, e.g., Okha, Kandla, Mormugao and Calcutta will cease to be the pricing points but the inland refineries at Digboi, Gauhati, Barauni and Koyali will be added to the list. Such a change will result in large scale increases in the selling prices at the ports where there are no refineries and which will cease to be the pricing points. The areas surrounding such ports will also be similarly affected. This may render uneconomic the working of many industries already located there.

9.3 The second alternative is to make all inland refineries the pricing points in addition to the main ports. In substance, it will mean that the import parity prices at the nearest main port will continue to be transplanted at the inland refinery for the determination of its ex-refinery prices of products but freight will be chargeable at actual rates from the inland refinery from which supply is made and not notionally from the main port nearest to the consumption point. This will increase the number of pricing points from nine to twelve.

9.4 Several objections have been raised by the oil companies to the aforesaid alternative. Firstly, it is held that the establishment of the public sector refineries at Gauhati, Barauni and Koyali, i.e., at locations far removed from the major centres of consumption, was not done on strict economic considerations, and consequently if the pricing system is now modified to minimise the disadvantages arising from the faulty locations of these refineries, there will be no incentive to subordinate political considerations to economic principles. If it is the potential demand in their vicinity which justified the locations of these refineries, their present ills might well be treated as of short duration, being expected to be remedied as demand grows in their vicinity. Secondly, the increased number of supply areas will complicate the rail traffic pattern and require more elaborate planning and control of rail movement. It may jeopardize the stability in movement attained under the existing system. Thirdly, it has been argued that the higher prices payable for petroleum products in the vicinity of an inland refinery need not be regarded as a major hindrance to industrialisation since the choice of location of an industry is not dictated merely by the cost of fuel but also by other economic considerations of far greater significance. It is also claimed that the proposed change will not substantially lower the prices in areas in the vicinity of the inland refineries. The following examples have been cited. The price of furnace oil at Gauhati will drop from about Rs. 243/k1 to Rs. 200/k1. At Barauni, price of kerosene will drop from about Rs. 503/k1 to Rs. 473/k1, price of motor spirit ex-pump from about Rs. 990/k1 to Rs. 941/k1 and that of furnace oil from about Rs. 239/k1 to Rs. 200/k1. These variations have been described as 'marginal', not likely to be of much help to the economic development of the regions and more likely to be absorbed by the trade in the case of a common user product like kerosene.



9.5 We have carefully examined the different aspects of this question. At the time of the last review of prices in 1965, the inland refining capacity was barely 2.25 million tonnes. This has now touched 7 million tonnes and is further estimated to increase to 10 million tonnes by 1975. This is a significant portion of the total refining capacity in the country and its impact on the economy can no longer be ignored. The siting of the public sector refineries in the inland areas, however, disadvantageous initially, is an accomplished fact. In the long term economic perspective, we cannot rule out inland locations or even further expansion of capacity of inland refineries, and regard ports alone as suitable locations for all time. These refineries process indigenous crude oil and their location was partly influenced by that consideration. It would be quite anomalous to stick to a port based pricing system when a growing proportion of the country's requirements is being met from inland sources. The consumers in the region where the refineries are located have a right to benefit by the growth of local production and it is wrong to compel them to pay higher prices for what is produced in their area. The consumer anywhere can reasonably be expected to bear transport costs from the nearest source of supply, but under the present system, while supplies are actually moved from the nearest source, i.e., the refinery within the region, the consumer is charged as if the supplies had moved from the nearest port, the marketing company pocketing the difference in transport cost. The argument that the

situation will correct itself as local consumptions grows is fallacious. The higher prices payable locally under the present system would deter the growth of local industry and thus perpetuate the dependence of the inland refinery on distant markets for the disposal of its output. As consumption grows in the vicinity of the refinery, over-recoveries will increase and the situation will become more and more anomalous. We are not impressed by the examples cited in the preceding paragraph and do not agree that the likely savings to the consumer from a modification of the system would be marginal or that they need not have much effect on economic development. For large consumers, the savings would be significant. Moreover, a system which ignores any possible deterrent to the economic development of industrially backward States is basically out of tune with the prevailing concern about regional imbalance. In this context we see considerable force in the arguments advanced by the Governments of Assam and Gujarat against continuance of the present system. The plea of higher costs of production at the inland refineries on account of the higher cost they have to pay for movement of equipment and supplies from ports, is not relevant so long as the ex-refinery prices of products are determined on import parity, without regard to the cost of production of a particular or a representative unit. So far as marketing is concerned, we propose to take note of the over/under-recoveries arising to the marketing companies as a result of this proposal. We agree that the number of supply areas will increase, but this will happen in any case with the growth of demand and refining capacity. The supply areas will have to be redrawn and more elaborate control will have to be exercised to prevent cross-hauls, particularly in the eastern and western zones. Government should set up the necessary machinery for this purpose in consultation with the oil companies.]

9.6 The inland refineries taken together have hitherto experienced under-recovery of freight in the net. If the present system is continued these refineries will enter an era of net over-recovery. It is contended that if the inland refineries are now made the pricing points, the gain to the IOC of future over-recoveries would be lost. In our opinion, this is not an adequate justification for continuance of the present system. Just as the under-recoveries were a matter of concern to the IOC in the past, the over-recoveries in the future are a matter of concern to the consumer; particularly because unlike the under-recoveries, the over-recoveries cannot be expected to be of short duration, and are in fact likely to increase in future.

9.7 We requested the three major private oil companies and IOC to undertake a joint exercise to determine the extent of net under/over recoveries over the next three or four years if the inland refineries are also made the pricing points in addition to main ports. The estimates prepared by IOC for the years 1970 to 1972 are given below to show the magnitude of net under/over-recoveries under the present and the proposed basis. IOC's projection for 1970 generally tallies with that made independently by Esso and Caltex. It covers major fuel products (viz. motor spirit, kerosene, ATF, HSD, LDO, furnace oil and bitumens) (excluding consumption in Assam and bunkers). It also includes under-recovery on coastal movement of naphtha.

On present basis with main ports as pricing points and at present prices

(Rs./million)

	1970	1971	1972
(A) IOC Account			
(a) Inland refineries :			
(i) Rail freight (Over)/under-recovery	(15.0)	(39.5)	(40.0)
(ii) (Gain)/loss port price differential	4.4	14.6	18.4
Sub-total (a)	(10.6)	(24.9)	(21.6)
(b) Coastal refineries			
(i) Rail freight (Over)/under-recovery	5.7	0.7	0.8
(ii) (Gain)/loss on port price differential	(0.9)	..	..
(iii) Coastal movement cost	51.2	54.9	41.8
Sub-total (b)	56.0	55.6	42.6
Total under-recovery (a) + (b)	45.4	30.7	21.0
(B) Others Account			
(i) Rail freight (over)/under-recovery	2.4	2.2	2.2
(ii) (Gain)/loss on port price differential	0.8	0.6	0.6
(iii) Coastal movement cost	14.4	11.3	14.1
TOTAL	17.6	14.1	16.9
ALL INDIA			
(i) On shore movement over/under recovery	(2.6)	(21.4)	(18.0)
(ii) Coastal movement cost	65.6	66.2	55.9
TOTAL	63.0	44.8	37.9

NOTE.—Figures within brackets indicate over-recovery. There is no rail freight under/over recovery and port price differential on naphtha but the under-recovery on coastal movement of naphtha is included in the above estimate under the relevant heading.

9.8 According to IOC's refinery-wise analysis, if the present system continues, the net rail freight and port price differential under-recovery will gradually decrease on Gauhati products, from Rs. 21.5 million in 1969 to Rs. 11.7 million in 1972. On Barauni production the net under-recovery of Rs. 0.9 million in 1969 will give place to net over-recovery of Rs. 5.1 million in 1970, Rs. 5.4 million in 1971 and Rs. 3.7 million in 1972. Koyali is altogether an area of over-recovery, which will increase from Rs. 7.3 million in 1969 to Rs. 29.6 million in 1972.

9.9 IOC has furnished the following estimates to show the extent to which the position of under/over recovery will deteriorate if the inland refineries are also made the pricing points in addition to the main ports.

**On proposed Basis with Main ports and Inland Refineries
as pricing points**

(Rs./million)

	1970	1971	1972
(A) IOC Account			
(a) On shore			
(i) Rail freight under-recoveries	54.0	32.5	36.7
(ii) (Gain)/Loss of port price differential	9.9	21.3	25.8
Sub-total (a)	63.9	53.8	62.5
(b) Coastal movement cost	52.2	56.2	43.0
Total under-recoveries IOC Account (A)=(a+b)	116.1	110.0	105.5
(B) Others Account			
(c) On shore			
(i) Rail freight under-recoveries	11.3	9.3	10.6
(ii) (Gain)/loss of port price differential . . . . .	..	(0.2)	(0.2)
Sub-total (c)	11.3	9.1	10.4
(d) Coastal movement cost	16.5	12.4	16.0
Total under-recovery (B) =(c)+(d)	27.8	21.5	26.4
(C) All India			
(e) On shore			
(i) Rail freight under-recoveries	65.3	41.8	47.3
(ii) (Gain)/loss of port price differential	9.9	21.1	25.6
Sub-total (e)	75.2	62.9	72.9
(f) Coastal movement cost	68.7	68.6	59.0
GRAND TOTAL UNDER-RECOVERIES(C)=(e)+(f)	143.9	131.5	131.9

NOTE.—Figures within brackets indicate over-recovery. There is no rail freight under over-recovery and port price differential on naphtha but the under-recovery on coastal movement of naphtha is included in the above estimate under the relevant heading.

The proposed system will transform the over-recoveries of rail freight and port price differential indicated at (A)(a) of table in para 9.7, into under-recoveries in respect of all inland refineries to the following extent:

Under-recovery of rail freight and port price differential

(Rs./million)

	1970	1971	1972
(i) Gauhati	27.3	20.4	24.7
(ii) Barauni	16.9	23.9	26.3
(iii) Koyali	7.6	2.7	3.3
(iv) Total IOC	51.8	47.0	54.3

9·10 The increase in the under-recovery on CRL and MRL production and on deficit imports, to the disadvantage of IOC, will be as under :

(Rs./million)

	1970	1971	1972
Under-recovery of rail freight and port price differential on CRL and MRL production and deficit imports			
(a) Ports as pricing points	4·8	0·7	0·8
(b) Ports as well as inland refineries as pricing points	12·1	6·5	4·9
(c) Increase in under-recovery (b)—(a)	7·3	5·8	4·1

9·11 In IOC's calculations the private sector refineries will also suffer increase in under-recovery of rail freight and port price differential as per details below :

(Rs./million)

	1970	1971	1972
Under-recovery in rail freight and port price differential			
(a) Ports as pricing points	3·2	2·8	2·8
(b) Ports as well as inland refineries as pricing points	11·3	9·1	10·4
(c) Increase in under-recovery (b)—(a)	8·1	6·3	7·6

9·12 The effect of the proposed change on under-recoveries on coastal movement of products will be as under :

(Rs./million)

	1970	1971	1972
I. On IOC Account under the present system			
(i) CRL	20·0	11·7	11·9
(ii) MRL	31·2	37·2	29·9
(iii) Total	51·2	48·9	41·8
II. On IOC Account under the proposed system			
(i) CRL	21·0	18·5	12·5
(ii) MRL	31·2	37·7	30·5
(iii) Total	52·2	56·2	43·0
III. Increase : II-I	1·0	7·3	1·2
IV. On Account of private sector			
(i) Under the present system	14·4	11·3	14·1
(ii) Under the proposed system	16·5	12·4	16·0
(iii) Increase (ii)—(i)	2·1	1·1	1·9

9.13 The under-noted statement summarises the position of net under-recoveries on account of rail freight, port price differential and coastal movements under the present and the proposed arrangements :

(Rs./million)

	1970	1971	1972
(a) Total net under-recovery with ports only as pricing points			
(i) Industry	63.0	44.8	37.9
(ii) IOC	45.4	30.7	21.0
(iii) % IOC share	72.1	68.5	55.4
(b) Total net under-recovery with ports as well as the inland refineries as pricing points			
(i) Industry	143.9	131.5	131.9
(ii) IOC	116.1	110.0	105.5
(iii) % IOC share	80.7	83.7	80.0

9.14 It will be observed that the reduction in net under-recoveries projected under the existing system is mainly due to the growing over-recoveries expected to be made by the inland refineries being set off against gross under-recoveries. As explained by us in paragraph 9.5 above, it would be unfair to the consumer to allow over-recoveries to become a permanent feature of the pricing system and what the marketing companies may regard as a loss really follows from our decision to eliminate this feature. However, while doing away with over-recoveries, we have to ensure that under-recoveries also are minimised, because just as over-recoveries are unfair to the consumer, under-recoveries are unfair to the producer and/or distributor. IOC has the responsibility to fill a deficit wherever it arises, whether this involves an under-recovery or an over-recovery, and IOC is, therefore, entitled to compensation for the net loss incurred as a consequence. For the private companies also the operating conditions should not be such as to create a disincentive for them to maintain supplies to their traditional markets. Already the private companies are withdrawing from some of their normal supply areas and this is throwing an additional burden on IOC. We would like to arrest this trend. We are satisfied, therefore, that in future the oil companies should be compensated for the entire net under-recoveries incurred by them. If movements are regulated on an all-India plan, all under-recoveries may be deemed to have resulted from movements considered necessary in the national interest and the resulting burden should, therefore, be borne by the general body of consumers and not by the oil companies. On this reasoning, we see no justification to limit the compensation for net under-recoveries to only the increase in such under-recoveries or only to under-recoveries excluding those arising from the coastal movement. IOC will be incurring substantial under-recoveries on account of coastal movement in the coming years and since such movements are in the interest of the general body of consumers, it is only fair that IOC should be compensated for such under-recoveries. We do not wish to deny such compensation to private sector companies merely on the ground that they have borne this burden in the past. The relief which they will get in future will be due to our desire that the pricing system should be fairer in future to both the producer and the consumer and should cause no distortion in

the normal pattern of movement from various sources. Incidentally, IOC's under-recoveries on coastal movement are partly due to its obligation to distribute the output of CRL and MRL a good part of which has to be transported by coast to Calcutta. Consequent on increase in CRL throughout, the under-recovery of IOC is likely to increase.

9.15 We recommend that a surcharge be levied on the total consumption of major fuel products on a budgeted basis and the oil companies be compensated for their net under-recoveries out of the proceeds of this surcharge. IOC has estimated that the surcharge could be less than one paisa per litre. Surely the consumer could be expected to bear this small burden as the necessary cost of eliminating both under-recoveries and over-recoveries and thereby making the pricing system more equitable to both the producer and the consumer. The following figures explain the IOC's estimate of the rate of surcharge needed to compensate the oil companies for their under-recoveries.

	(Rs./million)				
	1970	1971	1972	Total	1970—72
(i) Total under-recovery on major fuel products only excluding naphtha .	137.3	120.1	125.2	382.6	
(ii) Estimated sales volume of major fuel products in million kl.	15.798	17.024	18.461	51.283	
(iii) Unit rate of surcharge Rs. per Kl.	8.69	7.05	6.78	7.05	
Paise per litre	0.87	0.71	0.68	0.71	

9.16 As stated above, the rate of surcharge for individual products may be fixed initially on a budgetary basis and the position reviewed on the basis of actual experience. The over/under recoveries may be calculated on the basis of bulk rail freight payable and actually paid, the port price differentials including export and import warfage and landing charges and the under-recovery on account of coastal movement. Under recoveries due to the use of road transport may not be included because of the wide variations in the cost of road transport except in those areas where supplies are normally moved only by road. The exact rate of the surcharge and the detailed arrangements required to implement the scheme may be decided by Government.

CHAPTER TEN

Uniform Prices all India or on a Regional Basis

10.1 The existing system provides for the determination of the basic ceiling prices for bulk-refined products and bitumens at the companies' storage points. These prices hold good for supplies ex/f.o.r. main port installation. The inland refineries receive prices applicable to the nearest main port installation. In respect of supplies at upcountry stations, the marketing companies recover railway freight by the most economic route from the nearest main port to the upcountry point on the tariff applicable from time to time, irrespective of the actual mode of transport. On supplies from inland refineries the rail freight is recovered notionally from the nearest main port except that in respect of supplies from Digboi and Gauhati refineries such freight is recoverable from Digboi/Tinsukia or Calcutta, whichever is lower. In respect of motor spirit, superior kerosene and inferior kerosene a system of flat transportation surcharge is in force for all stations in the Assam supply area consisting of the States/Territories of Assam, Tripura, Nagaland, Manipur and NEFA.

10.2 The Oil Price Enquiry Committee set up in August, 1960, examined the question of introduction of a rail freight pool system in respect of all products for the entire country but found that such a system would not be workable. The Working Group on Oil Prices set up in May, 1964, again examined this question in a wider setting of uniform or pool prices for the whole country or for different zones and came to the conclusion that the introduction of such an arrangement would give rise to various complicated problems. Both the bodies had, however, recommended the continuance of the limited system of flat transportation surcharge in the Assam supply area. We agree with the views expressed by these committees on this subject.

10.3 The question of uniform prices was raised again in the context of the net over-and under-recoveries of freight and port price differential experienced by the inland refineries as a result of their location. We have recommended a different approach to the problem of over or under-recovery of freight in Chapter 9 and we do not think that a uniform all-India price is called for to solve that problem.

10.4 In its 35th Report, the Committee on Public Undertakings (Third Lok Sabha) recommended that the economics of the problem should be worked out in detail and the question examined as to whether it would not be in the interest of the country from the point of all round national development to have a uniform price for petroleum products throughout the country.

10.5 We issued a detailed questionnaire on this subject to the suppliers and the principal consumers of bulk refined products, viz., the oil companies in the private and public sector, the Ministries concerned, State Transport Departments, State Transport Undertakings, Automobile Associations and about twenty selected associations of manufacturers and

Chambers of Commerce. An overwhelming majority of the replies received by us did not favour a system of uniform or pooled prices. A small minority of consuming industry (e.g., the paint industry at Kanpur) supported the pooling system but we did not find the reasons advanced by them convincing. It is unnecessary for us to discuss the pros and cons of the pooling system in this Report as these were fully discussed in the Working Group on Oil Prices Report and we are in agreement with the conclusions reached in that Report.

10.6 A major objection to a system of uniform prices (based on a pooling of freights) is that it will increase the cost of the products to the industries located in and around the ports and thus upset their economies. The data furnished by the oil companies show that in 1967, of the total all India sales of bulk refined products and bitumens, the following percentage was sold at the port towns and in areas around the port towns upto 1000 km. except in the case of Esso whose data is available in respect of sales ex-port towns only :—

Percentage of total sales All India

Sl. No.	Company	Motor Spirit	Kero-senes	HSD	LDO	FO	Bitu-mens
1	Burmah-Shell						
	(a) At the port towns .	33.2	22.9	16.0	15.2	63.7	26.6
	(b) In areas round port towns upto 1000 km.	51.7	65.3	63.5	69.9	31.0	52.8
	(c) Total of (a) and (b) .	84.9	88.2	79.5	85.1	94.7	79.4
2	ESSO						
	(a) At the port towns .	36.6	30.6	16.8	16.2	56.2	N.A.
	(b) In areas around port towns upto 1000 km.			N.A.			
3	Caltex						
	(a) At the port towns .	32.1	20.4	16.5	32.1	70.5	8.0
	(b) In areas around port towns upto 1000 km.	53.3	73.3	67.5	57.7	27.5	73.6
	(c) Total of (a) and (b) .	85.4	93.7	84.0	89.8	98.0	81.6
4	IOC						
	(a) At the port towns .	15.5	17.3	16.9	8.1	38.9	27.7
	(b) In areas around port towns upto 1000 km.	52.0	67.4	63.8	75.0	57.6	72.3
	(c) Total of (a) and (b) .	67.5	84.7	80.7	83.1	96.5	100.0

The above table shows that the introduction of uniform prices will increase the selling prices to a vast majority of consumers in areas around the port towns.

10.7 A regional pool will also suffer from similar disadvantages. Such a pool gives rise to sharp differences in prices on either side of the border between any two regions. Moreover, all the products of a refinery do not move to the same area all the time. The demarcation of regions will have to be entirely arbitrary, require frequent adjustments to match the production patterns and would lead to sharp discontinuities near the regions.

10·8 It has been suggested that the concept of the "free delivery zone", which is currently applicable at main ports and concentrated up-country markets for motor spirit and high speed diesel oil, should be extended to other products, and in particular to furnace oil. We endorse this suggestion.

10·9 The limited pool system in respect of motor spirit, kerosene superior/inferior operating in the Assam supply area has its justification in the special conditions prevailing in that State, particularly the difficult-transport conditions and the high cost of transport, moreover, there is little scope for trans-border movements of the type envisaged in para 10·7 above. The system covers the entire State of Assam and the territories of Tripura, Manipur, Nagaland and NEFA. The Assam Government has represented that supplies to areas other than the State of Assam involve very heavy transportation cost, which gets added to the transportation cost inside Assam for the purpose of arriving at the pooled transport cost for the whole of the Assam supply area.

They have suggested, therefore, that the existing pool system should apply to the Administrative State of Assam only. We are unable to support this suggestion, since the exclusion of Tripura, Manipur, Nagaland and NEFA from the Assam supply area would result in a steep increase in the transport cost on supplies to these territories. It would not be fair to place this burden on them, since their disadvantages arise largely from natural factors and these areas are also relatively underdeveloped.

The Assam Government have estimated that their proposal will result in a decrease in the transportation cost in that State by Rs. 17·00 per ton. This would make a decrease in selling prices by 1 paise to 1·3 paise only per litre. Obviously the benefit is not of an order which would warrant disturbing a system which has worked well for over a decade. Moreover, the bulk of the sales take place in the Assam State itself. In 1968, the consumption in Assam was 80 per cent of the total consumption in the entire Assam supply area (i.e., the pooled area) in respect of kerosenes and 88 per cent of motor spirit. The total quantities of these products supplied to the Defence Services in NEFA, Nagaland, Tripura and Manipur is also a small proportion of the total supply of these products in the State of Assam.

We understand that in the Assam supply area, the rates of surcharge are presently revised only on the basis of the Assam Oil Company's operations. The rates should take into account the experience of the Indian Oil Corporation also, which is now a major distributor in the area. In the years 1965 to 1967, the Indian Oil Corporation Ltd., experienced over-recovery of the order of Rs. 0·4 million, which should be taken into account alongwith the over-recoveries, if any, in subsequent years. Adjustments of the rates applicable from time to time should be made at prescribed intervals.

10·10 The under/over-recoveries arising in the Assam supply area from the making of inland refineries as pricing points, should be taken into account alongwith the all-India under-recoveries, as recommended in paras 9·15 and 9·16, and, not lumped with the pool account for motor spirit and kerosenes in force in that area.

CHAPTER ELEVEN

Pricing Formula

11.1 The basic ceiling prices to be recommended by us will be composed of the following elements :

- (a) F.o.b. cost (less discounts as recommended in para 8.12).
- (b) Marine freight
- (c) Marine insurance
- (d) Ocean loss
- (e) Customs duties and surcharges
- (f) Wharfage and other compulsory landing charges
- (g) Marketing and distribution charges consisting of,
 - (i) Installation expenses
 - (ii) Administration and management expenses
 - (iii) Upcountry distribution expenses
 - (iv) Retail pump/airfield outlet expenses
- (h) Profit
- (i) Fixed commission to dealers/agents, wherever applicable.

11.2 The basic ceiling prices will be exclusive of rail freight from the port/refinery storage point upto the point of delivery, local duties and taxes as applicable at the place and time of sale and the pack/bulk differential in respect of products supplied in packages.

11.3 Bulk Refined Products :

11.3.1 F.O.B. Cost.—We have adopted the following posted prices, f.o.b. Bandar Mah-Shahr as reported in Platt's Oilgram Price Service No. 103 dated the 28th May, 1969, for the various products:—

Marketing Nomenclature in India		Equivalent Platt's quotation	Posted Price
			US Cents/ per AG
Aviation spirit 100/130	. . . .	Avgas Grade 100/130	14.7
Aviation spirit 115/145	. . . .	Avgas 115/145	16.0
Do.	73 clear	Do.	73 clear
Aviation turbine fuel	. . . .	Turbine fuel 1(—58 F)	9.5
Motor spirit 79 octane	. . . .	79 oct.	6.9
Motor spirit 93 octane	. . . .	93 oct.	9.0
High speed diesel oil	. . . .	53-57 Diesel Index	6.6
Kerosene superior	. . . .	Kerosene	8.9
Kerosene inferior	. . . .	No. 2 fuel	6.2
Vaporising oil	. . . .	Tractor vap. oil	8.6
			\$/per bar- rel of 42 AG
Light diesel oil	. . . .	Industrial diesel	2.62
Furnace oil	. . . .	Light fuel	1.42

11.3.2 Discount : As stated in para 8.12, we have taken the cost of crude at 10 cents lower than that prevailing on the date to which the above posted prices of products relate. On the basis of over-all relationship between the cost of crude and the prices of products, we find that a discount of 4 per cent on the f.o.b. prices of products would be appropriate to take account of the reductions in the f.o.b. cost of crude. We have accordingly discounted the above-mentioned posted prices by 4 per cent to arrive at the net f.o.b. cost. If at a future date the discount on light Iranian Agha Jari crude increases, the discount on the posted prices of products should be increased by 4 per cent for every 10 cents extra discount on crude.

11.3.3 Marine Freight is based on INTASCALE (International Tanker Nominal Freight Scale) published by the International Tanker Freight Scale Association Ltd., London, over which adjustments are made as per AFRA (Average Freight Rate Assessment) Index published by the London Tanker Brokers' Panel monthly since, the 15th July, 1967. The INTASCALE indicates the basic rates ex-Quoin Island in £ Sterling per long ton to various ports, to which a differential of sh. 5-7 per ton is added for loading at Bandar-Mah-Shahr. The total is the basic freight over which are applied the relevant AFRA index. The tankers used for the transportation of crude oil and products are classified as under and freight varies with the size/range of the vessels :—

(i) General Purpose (GP) Vessels	16500—24999 DWT
(ii) Medium Range (MR) Vessels	25000—44999 DWT
(iii) Large Range (LR) Vessels	(a) 45000—79999 DWT (b) 80000—159999 DWT

Crude oil is presently obtained in MR vessels at ports other than Bombay, for which freight at LR rates, as per (iii) (a) above, is agreed to be claimed by the Bombay refineries irrespective of whether actual imports are made in MR or LR vessels.

As regards the size of vessels normally used for transport of products, we made enquiries from the Shipping Corporation of India, which consulted a leading tanker broker in London. These enquiries showed that while MR vessels can also be employed in the transportation of products and some oil companies have such vessels of their own employed in their own programmes for special schedules, normally GP vessels are used in clean trading the reason is that it is uneconomical to use MR vessels due to the need to instal sophisticated segregation lines to permit of carriage of two or more grades of products with safety and to provide the requisite pumping lines. Accordingly, we have adopted marine freight at GP vessels rates for all bulk refined products except furnace oil for which MR vessels rate has been adopted.

11.3.4 Pattern of Discharge : We have assumed the following pattern of discharge which is the same as that on which the existing prices are based :—

Port	Pattern of discharge	Bulk refined products other than furnace oil freight rate Rs./tonne	Furnace oil freight rate Rs./tonne
Bombay	Single Port	12.275	11.00
Kandla	Kandla/Cochin	15.666	14.04
Okha	Okha/Cochin	15.316	13.72
Mormugao	Mormugao/Cochin	15.199	13.62
Cochin	Average of Kandla/Cochin, and Mormugao/Cochin.	Okha/Cochin 15.394	13.79
Madras	Madras/Calcutta	22.448	20.11
Visakhapatnam	Visakhapatnam/Calcutta	22.330	20.01
Calcutta	Average of Madras/Calcutta and Visakhapatnam/Calcutta.	22.389	20.06

Based on these figures and the selling units per tonne of each product the incidence of marine freight is built into the pricing formula. It is understood that a new listing of tanker rates called "WORLDSCALE" has been published jointly by the Association of Ship Brokers and Agents, Inc. of New York and the International Tanker Nominal Freight Scale Association Ltd. of London. This is designed to supersede INTASCALE. The freight rates included by us in the price formulation on the basis in INTASCALE should be modified according to the "WORLDSCALE" from the date it comes into effect.

11.3.5 Marine Insurance : Marine insurance has been allowed for at 0.055 per cent of the f.o.b. cost which, according to Burman-Shell is the rate charged by Indian insurers.

11.3.6 Ocean Loss : Ocean loss has been adopted at the existing rates, as under :—

	Percent on c.i.f.
Aviation spirit (all grades)	0.54
Aviation turbine fuel	0.25
Motor spirit	0.33
High speed diesel oil	0.31
Kerosene superior	0.25
Kerosene inferior	0.25
Light diesel oil	0.44
Furnace oil	0.11

11.3.7 Conversion Factors : We have used the following conversion factors for calculating the f.o.b. cost and marine freight :—

Products	AG@60°F per Kl@85°F for f.o.b. cost	Kl@85°F (29.5 °C) per tonne for marine freight
Aviation spirit 100/130	259.61	1.421
" " 115/145	259.42	1.449
" " 73 clear	259.53	1.432
Aviation turbine fuel	260.53.	1.288
Motor spirit 79	259.55	1.427
Motor spirit 93	260.19	1.386
High speed diesel oil	260.98	1.210
Kerosene superior	260.59	1.285
Kerosene inferior	260.96	1.265
Light diesel oil	261.19	1.172
Furnace oil	261.51	1.071

11.3.8 Rate of Exchange : The current rates of exchange of Rs. 7.5757 per US \$ and Rs. 18.0897 per £ sterling have been adopted.

11.3.9 Total C.I.F. : The total c.i.f. price per selling unit of petroleum products (kilolitre or tonne) at the respective landing ports based on the foregoing factors, f.o.b. quotations indicated in the Platt's Oilgram Price Service dated the 28th May, 1969, and marine freight as per INTA-SCALE with AFRA variation applicable with effect from June, 1969, are indicated in Statements 1 to 11.

11.3.10 Customs Duties : The ultimate consumer prices of products should include customs/excise duties. The total duty as at present consists of basic duty and non-recoverable surcharge levied to mop up extra profits. Certain non-recoverable duties were levied towards the adventitious gain resulting from the devaluation of rupee. These will not form part of the price structure. The following table shows the duties as on the 30th August, 1969, for each petroleum product both at 15° C and 29.5° C (85° F natural average temperature). In converting the duties at 15° C to those at 29.5° C, the following conversion factors, as presently in use, have been adopted :—

Products	Factor for converting duty rate at 15°C to 29.5°C (duty at 15°C × Factor = Duty at 29.5°C)
(i) Aviation gasoline 100/130	0.9827
(ii) " " 115/145	0.9820
(iii) " " 73/clear	0.9824
(iv) Aviation turbine fuel	0.9862
(v) Motor spirit 79 octane	0.9825
(vi) Motor spirit 93 octane	0.9836
(vii) High speed diesel oil	0.9879
(viii) Kerosene superior	0.9864
(ix) Kerosene inferior	0.9878
(x) Light diesel oil	0.9887
(xi) Furnace oil	0.9899

Excise Duty as on 30-8-1969

(Rupees per Unit)

Products	Unit	Excise Duty at 15°C					Excise Duty at 29.5°C				
		Basic	Additional		Total (3) to (5)	Basic	Additional		Total (7) to (9)		
			WGOP	Devaluation			WGOP	Devaluation			
1	2	3	4	5	6	7	8	9	10		
1. AV Gas 100/130	. . . . . KL	620.00	41.80	52.95	714.75	609.27	41.08	52.03	702.38		
2. AV Gas 115/145	. . . . . "	620.00	41.80	52.95	714.75	608.84	41.05	52.00	701.89		
3. AV Gas 73	. . . . . "	620.00	41.80	52.95	714.75	609.09	41.06	52.02	702.17		
4. Motor Spirit 79	. . . . . "	620.00	41.80	52.95	714.75	609.15	41.06	52.02	702.23		
5. Motor spirit 93	. . . . . "	620.00	41.80	52.95	714.75	609.83	41.11	52.08	703.02		
6 Aviation Turbine Fuel	. . . . . "	205.25	21.70	34.65	261.60	202.42	21.40	34.17	257.99		
7. Kerosene superior	. . . . . "	205.25	21.70	34.65	261.60	202.46	21.40	34.18	258.04		
8. Kerosene Inferior	. . . . . "	50.90	55.85	30.80	137.55	50.28	55.17	30.43	135.88		
9. High Speed Diesel Oil	. . . . . "	461.05	22.90	26.70	510.65	455.47	22.62	26.38	504.47		
10. Light Diesel oil	. . . . . "	95.55	51.95	41.55	189.05	94.47	51.36	41.08	186.91		
11. Furnace oil	. . . . . "	50.75	21.05	21.15	92.95	50.24	20.84	20.94	91.02		
12. Bitumen St. Grade (Bulk)	. . . . . MT	15.50	40.30	11.95	67.75						
13. Bitumen St. Grade (Packed)	. . . . . "	39.50	40.30	11.95	91.75						
14. Bitumen Cutback BS/RC	. . . . . "	36.40	27.00	24.50	87.90						

11.3.11 Wharfage : Wharfage charges have been allowed for at the latest figures furnished by the oil companies and verified from the Port authorities.

11.3.12 Other Compulsory Landing Charges : The following rates have been adopted on the basis of data furnished by Burmah-Shell.

	Rs./Kl.
Aviation gasoline	1.80
Aviation turbine fuel	0.88
Motor spirits	0.69
High speed diesel oil	0.79
Kerosenes	0.64
Light diesel oil	0.71
Furnace oil	0.32
Bitumens	0.50
	per tonne

11.3.13 Commission to Dealers and Agents :

We are required by our terms of reference to recommend the rates of commission for motor spirit, high speed diesel oil and kerosene and our recommendations on the subject are given in chapters 20 and 21. The rate of commission for light diesel oil has been adopted at the existing rate, viz., Rs. 6.60 per Kl. plus any extra cost at actual rates incurred by the agents for sales ex-their godowns.

11.3.14 Marketing and distribution charges and profit have been allowed as indicated in paragraphs 18.7 and 19.4.

NOTE.—No prices have been evolved for vaporising oil as the estimated sales of this products are negligible, i.e., less than 100 Kl. per annum.

11.3.15 Point of Supply : The recommended ceiling prices thus arrived at are shown in statements 1 to 11 and will be applicable for sales ex-companies' storage points for all bulk refined products.

The charges for delivery of kerosenes, light diesel oil, furnace oil and bitumens beyond the oil companies' storage points and motor spirit and high speed diesel oil at retail pump outlets beyond the 'free delivery zones' will be payable extra at actuals, as at present.

11.4 Bitumens :

11.4.1 Bitumen asphalt is produced at the local refineries and supplied mainly in drums except small quantities despatched to outstations in bulk from the producing refineries. Consequently, the pricing formula for bitumens follows the same structure as for bulk refined products.

11.4.2 F.O.B. : In the absence of posted prices, bulk or packed, the private oil companies were asked to intimate the probable f.o.b. cost. Burmah-Shell alone replied and intimated the f.o.b. cost, as on the 1st June, 1969, ex-Abadan, which is stated to be the only exporting centre. This is based on Shell International Petroleum Co.'s Export List No. A.23 dated the 19th November, 1967, which had remained unchanged till the

1st June, 1969. The packing costs are the certified figures from Iranian Oil Refining Co. based on their 1968 actual experience. The information furnished is as under :—

	(Per long ton)								
	Packed			Packing			Bulk		
	f.o.b.			cost			f.o.b.		
	£	s	d	£	s	d	£	s	d
St. Grade	12	5	0	6	0	0	6	5	0
Cutback BS Gr.	15	5	0	7	19	4	7	5	8
Cutback RC Gr.	16	0	0	7	19	4	8	0	8

The relevant figures per tonne are as under :—

St. Grade	12	1	1	5	18	1	6	3	0
Cutback BS Gr.	15	0	2	7	16	10	7	3	4
Cutback RC Gr.	15	15	0	7	16	10	7	18	2

Consistent with the import parity basis the f.o.b. price per tonne of bulk bitumen in terms of rupees works out as follows :—

	(Rs. Per tonne)
	Bulk parity
St. Grade	111.25
Cutback BS Gr.	129.64
Cutback RC Gr.	143.06

The bulk parity prices have been adopted for all the eight ports irrespective of the fact whether there are refineries there or not.

11.4.3 Discount on F.O.B. : A discount of 4 per cent has been applied to the f.o.b. bulk parity prices of bitumens to take account of f.o.b. reduction of 10 cents per barrel in the cost of crude adopted by us as compared with the cost prevailing on the date to which the f.o.b. price of bitumen relates. If at a future date the discount on light Iranian Agha Jari crude increases, the discount on the bulk parity prices of bitumens should be increased by 4 per cent for every 10 cents extra discount on crude.

11.4.4 Marine Freight : To estimate the freight rates for bulk transport, a premium has to be allowed for special facilities for heating and handling bitumen. In the absence of any other data, this premium is provided at 20 per cent of the rates applicable to MR vessels ex-Abadan on the pattern of discharge adopted for furnace oil. Including this premium, the marine freight per tonne of bitumen at the current applicable AFRA rate effective from June 1969, ex-Abadan for the various ports in India works out as follows :

	(Rs./tonne)
Kandla	25.32
Okha	24.91
Bombay	21.42
Mormugao	24.78
Cochin	24.98
Madras	33.11
Visakhapatnam	32.98
Calcutta	33.05

11·4·5 Packing cost : In working out the selling prices for bitumens packing cost in India has to be added, to cover packed supplies ex-companies' storage. Some refineries are manufacturing drums, while others either make outright purchase or get them fabricated. The drum cost per tonne of bitumen of the refineries shows wide variation when compared with Burmah-Shell, which is the lowest. There is no reason why the other refineries also cannot manufacture drums within Burmah-Shell's figure. We have adopted Burmah-Shell's cost of drums for all ports.

11·4·6 Other items are provided as under :

Marine Insurance and Ocean Loss have been allowed on the same lines as for bulk refined products.

Customs Duties are based on the rates applicable at present.

Marketing/Distribution Charges and Profit are allowed on the basis indicated in paras 18·7 and 19·4 in respect of bulk refined products.

11·4·7 The recommended ceiling prices for bitumens thus arrived at are shown in statements 12 to 14 and will be applicable ex-companies' storage points.



CHAPTER TWELVE

Landed Prices of Imported Products

12.1 There has been a general decline in imports of bulk refined products, of which nearly 57,000 tonnes of aviation fuels, 420,000 tonnes of kerosene superior and 55,000 tonnes of furnace oil, valued in all at Rs. 129 million, were imported in 1968. According to a recent estimate of the Indian Institute of Petroleum, in addition to aviation gasolines and/or their components not manufactured in this country, imports of the following order of middle and heavy distillates, coming within the purview of the price formula, may be necessary in the future years :

	('000 tonnes)				
	1969	1970	1971	1972	1973
(i) Middle distillates (Kerosenes, ATF, High Speed and Light Diesel Oils).	332	331	801	748	868
(ii) Heavy distillates (Furnace Oil etc.).	236	252	378	8	..
(iii) Total	568	583	1179	756	868
(iv) Approximate import value of current prices in Rs./milliom.	90.0	90.0	200.0	150.0	170.0

12.2 Since mid-1965, the private oil companies have not been getting import licences for the bulk refined products, all imports of which are being channelled through the IOC. Imports of small quantities of two grades of aviation gasolines and JP-5 have been arranged by Burmah-Shell in the recent years through their suppliers, viz. Petroleum Supplies and Services Ltd. and Shell International Petroleum Co. Ltd. of London, in terms of long-term arrangements concluded in 1962. No remuneration is said to be paid to the suppliers for the services rendered by them in arranging these imports. The prices at which these products are imported are reported to Government for their scrutiny.

12.3 IOC's imports of deficit products are mostly made from East European countries on rupee payment basis, at prices negotiated with the suppliers. Sometimes IOC invites competitive bids where the requirements are occasional. All imports are arranged directly by the IOC and hence no commission is paid to any party. It is understood that IOC obtains Government's clearance before finalizing its import contracts.

12.4 As imports of products form a small portion of the total supply, we recommend that the selling prices of imported products may be at par with the ceiling selling prices recommended by us for domestic products.

CHAPTER THIRTEEN

Lubricants, Greases and Specialities

13.1 The broad categories of lubricants and greases marketed in the country are given below :

(i) *Lubricants :*

1. Aero Engine Oils
2. Automotive Oils
3. Cutting Oils
4. Gear Oils
5. Industrial Oils (e.g. Axle, Compressor, Crank Chamber, General Machinery, Steam Cylinder, Textile Finishing and Turbine Oils, etc.)
6. Marine Oils
7. Transformer Oils (e.g. Insulating, Transformer and Switch Oils)
8. Liquid paraffin.

(ii) *Greases :*

Automotive and Industrial Greases, e.g. Ball and Roller Bearings, Cup and General Purpose Greases; Hard Greases for locomotives, Greases for Ropes etc.

(iii) *Petrolatums (Mineral Jelly and other Petrolatums).*

13.2 The bulk of these products are either wholly imported or blended in the country from imported base oils and a comparatively small quantity of LVI (Low Viscosity Index) grades only is wholly produced indigenously.

13.3 It is estimated that the country would still need to import 0.1 to 0.2 million tonnes of lubricating oils per annum, mostly of the complex and sophisticated varieties.

13.4 Our questionnaire in respect of these products was issued to the Assam Oil Co., Burmah-Shell, Caltex, Esso, IOC, IBP and eight other smaller companies entitled to foreign exchange allocation in 1967-68 of over Rs. 0.4 million each for import of these products.

13.5 In 1968, the shares of the major oil companies in the total sales of these products were as under :

	Percentage (Approx.)
Burmah-Shell	31.5
IOC	28.6
Esso	23.0
Caltex	9.3
	(Lubricants only)

The balance was handled by the smaller companies, of which AOC, Castrol, Gulf Oil, Tide Water and IBP were prominent. The bulk of the sales are made ex-companies' storage points at main ports and up-country stations and the balance at dealers' godowns and retail outlets, subject to supervision by the oil companies:

13.6 The arrangement with the dealers differs from company to company. Some of the companies bill dealers/agents at the net prices; sales to retail customers being made by the dealers/agents at or below the established list prices depending upon the competition in the market. In some cases the dealers/agents are allowed to add a mark-up to the companies' net selling prices or are allowed commission per Kl. on the different grades at fixed rates. The net remuneration to the dealers/agents varies from 10 to 25 per cent depending upon whether the products are of low or high grade.

13.7 The sales of lubricating oils and greases are mostly of the branded grades. A small portion consisting of low grade products are sold as specification grades; these are specifically blended to meet a given set of physical specifications. The specification grades are marketed mainly by AOC and Burmah-Shell and to a lesser extent by the other oil companies. Burmah-Shell claims to have reduced over the last 10 years the number of grades marketed from about 550 to about 227. The oil companies claim to keep in view the need to convert branded type lubricants to specification grades. It is said that the difficulty in reducing the number of branded grades is that the use of such grades is prescribed, often by warranty, by the manufacturers of plant and machinery. It appears that the oil companies the world over are spending large sums of money to build up a market for their own brand names, keeping their specifications as a trade secret. The example of AOC, however, shows that with the gradual increase in the production of lubricants indigenously, it should be possible to reverse the trend and the expedite introduction of specification grades to the exclusion of branded ones.

13.8 Licences for the import of base lubricating oils are not granted presently to small importers instead, the import entitlement of such allottees is included in the licences issued in favour of the major oil companies, who have recognised oil blending plants in the country. This facilitates import of base stock in bulk at competitive rates. The base stock, on receipt, is blended by the oil companies to the grades required by the allottees upto the limit of the licence allotted to them, packed in drums and sold ex-installation at mutually agreed prices. This arrangement appears to operate satisfactorily, except for some difficulties experienced by a smaller company. We have not considered it necessary to go into an individual complaint as in terms of the Import Trade Control Policy, the smaller companies are free to align their arrangements with the oil companies of their choice.

13.9 At present, a system of Block Control on marketing and distribution charges and profit, based on the data for Burmah-Shell, Esso and Caltex, is applicable to (i) lubricants and greases and (ii) specialities. We have dealt with the two categories separately. This system permits the oil companies to fix the selling prices of the individual products falling under the respective groups in such manner that, during a financial year, the recovery towards marketing and distribution charges and profit margin per unit quantity for each of the two groups does not exceed the ceilings laid down.

The oil companies are permitted to recover the actual cost of materials, blending charges and packaging and filling-in charges. These charges are deductible from the net realization to the oil companies in respect of these products, the balance represents the recovery towards distribution charges and profit margin. Dividing the balance by the total quantity sold of the relevant group gives the average recovery rate. In the event of the average recovery during a financial year, exceeding the ceilings laid down, the producers' realization in the subsequent period is to be suitably adjusted through a reduction in price or levy of non-recoverable duties to mop up the past over-recovery and to obviate accumulation of excess recovery in the future.

13.10 The oil companies are critical of the existing system of Block Control on marketing/distribution charges and profit on the ground that the quantum allowed is identical both for high and low grade products, as a result of which the average varies from company to company depending on the proportion of high and low grade volumes handled. This system is said to act as a dis-incentive to reduce marketing costs and increase efficiency. It does not recognise the varying measure of technical services rendered by each company.

13.11 The system of Block Control has been devised because of the difficulty of determining ceiling selling prices for individual products or groups of products for the high and low grades, considering that nearly 250 different varieties are sold under brand names or otherwise, in nearly 14 different types of packages. There are nearly 180 big and small producers. Where the cost of production is predominantly of external origin, the local element consisting mainly of blending, packaging, marketing and profit, we see no alternative, in view of the multiplicity of types and grades involved, to the present system of Block Control which allows actual costs of import, blending, and packaging, and a prescribed rate of overall marketing charges and profit. In the absence of Block Control, either the importers and blenders would have to be allowed complete freedom with respect to the marketing charges and profit recovered by them, or a virtually impossible task of fixing and enforcing prices for numerous individual types and grades would have to be undertaken. Neither of these is practicable or desirable. We agree that an adjustment in any period for over-recoveries in a past period can cause difficulties to newcomers but, this is unavoidable since no differentiation is possible in the levy of non-recoverable duties between old and new suppliers nor is the economy likely to suffer materially if newcomers are unable to take up the import business in particular types and grades of lubricants for this reason. Moreover the oil companies can minimise such difficulties by fixing prices in such a way as to avoid over-recoveries and where over-recoveries arise despite their best efforts to make prompt adjustments. The scheme itself envisages voluntary adjustment by the oil companies of their ultimate selling prices on the basis of a periodic review of the position in regard to the recovery of the prescribed quantum of marketing/distribution charges and profit. In the past, the oil companies failed to carry out such adjustments as and when they were called for; such adjustments would have resulted in the lowering of prices to the consumers, thereby avoiding an accumulation of over-recoveries and consequent payment of non-recoverable duties to Government. On account of delay in the submission of the prescribed audit certificates, the net position of over/under recovery of the past few years could not be accurately estimated until the close of 1967. It is also observed that during the last three years, there have been three significant increases in selling

prices; firstly, on the 1st July, 1966, due to the devaluation of the rupee; secondly, on the 26th May, 1967, as a result of increase in the Central Duty rates from 10 to 20 per cent *ad valorem* and, lastly, on the 17th August, 1967, due to the application of a diversion charge on imports via the Cape of Good Hope because of closure of the Suez Canal. It was open to the oil companies to withhold, wholly or partly, the aforesaid increases in selling prices till the liquidation in substantial measure of the past over-recoveries and thus obviate an increase in Additional. (Non-Recoverable) duties.

13.12 The Ministry of Petroleum & Chemicals has suggested that steam cylinder oils, transformer oils, exle oils and liquid paraffin should be excluded from Block Control as these grades are mostly imported by IOC and the consumers are Railways. The basic idea is that the seller and the buyer being under the same ownership should normally be able to agree upon fair and reasonable prices by mutual negotiation. We are not impressed by this consideration, since both IOC and Railways are commercial organisations and common ownership should make no difference to their efforts to secure the best possible terms from their own stand-points in their mutual negotiations. There may be other special grades of lubricants imported by other companies for supply to particular users, and such companies may also claim exemption from Block Control for the same reason. The very fact of import by a single agency provides scope for a monopolistic tendency which it may not be easy for a single consumer to resist successfully. We are, therefore, of the view that no exemption from Block Control could be justified for these grades on the grounds urged by the Ministry.

13.13 Accordingly, we recommend that for lubricants and greases which are predominantly imported and are only blended and packed in the country, the existing system of Block Control should continue. For determining the ceiling rates for marketing and distribution charges and profit, we have taken into account data for IOC as well as those for Burmah-Shell, ESSO and Caltex on which the existing system is based. We recommend the following ceiling rates :

	Rs./Kl
(a) Marketing/Distribution charges	84.12 (73.73)
(b) Profit	23.60 (20.63)
(c) Total	107.72 (94.36)

(The ceiling rates so far allowed are shown in brackets)

These companies handle the bulk of the trade in these products. Some of the smaller distributors have asked for exemption from the additional (non-recoverable) duties which have been levied to adjust the over-recoveries made by the major distributors. We do not recommend such exemption for the reasons given earlier.

13.14 To remove the difficulties experienced in the past in the implementation of Block Control, we suggest that the oil companies should review their prices at frequent intervals and make prompt adjustments so as to avoid large accumulations of over-recoveries or under-recoveries.

13.15 We recognize that where a product previously imported is now produced indigenously in substantial quantities, and not merely blended and packed, the imposition of non-recoverable duties designed to mop

up over-recoveries on imports in a past period may affect indigenous production. While the difficulties arising from non-recoverable duties for new entrants into the import trade in lubricants and greases, may be of no material consequence to the economy, the same view cannot be taken of any disincentives to new production arising from this factor. Secondly where a product is produced indigenously, it would not be reasonable to exercise control only over the marketing charges and marketing profit in respect of such product and leave its manufacturing cost and profit free from control. Thirdly, in the case of some of the lubricants and greases the raw material, namely, lube base stock, is now produced in India and we have been asked to examine the question of regulating its prices. It would be anomalous if the prices of lube base stock were controlled without regulating the prices of products made therefrom (except for the marketing charges and profit). For these reasons we propose to examine the prices of those lubricants and greases which are predominantly produced in India together with the prices of lube base stock in the next part of our inquiry. For the present, such lubricants and greases may continue to be subject to system of Block Control applicable to imported products.

13.16 Although we have recommended continuance of the system of Block Control, we are aware that certain aspects of the system and its administration need further examination. Under this system, attention is centred only on marketing charges and marketing profit to the exclusion of blending and packing charges which, in some cases, might constitute a significant element. Whether any regulation is called for in respect of blending and packing charges for individual products, groups of products or on a block basis, is a matter for which we were not able to collect adequate data during the course of the present investigation. Secondly, as pointed out in paragraph 13.11 above, the oil companies have not been carrying out the necessary adjustments in prices promptly and the system of control has consequently relied on a mopping up of the over-recoveries only through the levy of non-recoverable duties. We are not sure that the rates of non-recoverable duties fixed in the past were adequate to prevent continuing over-recoveries or alternatively, that the oil companies were asked to reduce the prices charged to the consumer so as to stop further over-recoveries and thus make it unnecessary for Government to include an element on this account in the rates of non-recoverable duties. We propose to examine these matters during the next part of our enquiry when we shall be dealing with the prices of lube base stock which is the raw material for lubricants and greases. In principle, we feel that it would be fair to the consumer that prices are reduced rather than an over-recovery is mopped up by the levy of a non-recoverable duty. When, additionally, the non-recoverable duty is fixed below the level required to prevent further over-recoveries, the position becomes even more anomalous.

Specialities

13.17 The products classified as specialities and their total approximate sales in 1968 are given below :

	Tonnes
(i) Mineral turpentine oil	46,000
(ii) Jute batching oil	71,000
(iii) SBP spirit/hexanes/solvent oils	55,000
(iv) Roofing material and household specialities	9,000

Mineral turpentine oil is marketed mainly by Burmah-Shell, Esso, Caltex and IOC but the other specialities at (ii), (iii) and (iv) are marketed mainly by Burmah-Shell and Esso only.

13.18 These products are manufactured by further processing and treating of fuel product streams, viz., light distillates, kerosene and diesel oil. The alternative products, in lieu of which the speciality products, are produced, are mostly kerosene and to some extent naphtha for mineral turpentine oil, high speed diesel oil for jute batching oil, naphtha for SBP spirits and hexanes. In other words, at constant crude run, these products are manufactured at the cost of one fuel product or the other. For purposes of basic excise duty, the speciality products are classified under the corresponding item number applicable to the principal alternative products, but in order to promote their industrial use substantial concessions have been granted to specified classes of customers, such as the jute industry for jute batching oil, rubber and paint industries for SBP spirits and the solvent extraction industry for hexanes.

13.19 Until June, 1966, the ex-refinery prices of specialities were maintained at the import parity price level. After devaluation of the rupee, the selling prices were pegged at the pre-devaluation level. In March, 1968 additional (non-recoverable) duties were levied on these products also to mop up over a period of about two years the over-recoveries accrued to the oil companies upto the 31st December, 1967, as estimated on the basis of their own certified accounts in terms of the existing system of Block Control on Marketing/Distribution charges and profit for this category of products. Consequently, there has been a decline in the net realization to the oil companies on production and sale of these products, which it has been represented, acts as a disincentive to their production. The Oil Companies have asked for two-fold relief—that import parity should be revised to take account of rupee devaluation and secondly specialities should be excluded from the purview of Block Control on Marketing/Distribution Charges and Profit.

13.20 It has been suggested that mineral turpentine oil, jute batching oil and solvent oils should be excluded from Block Control and that a pricing formula should be evolved for them. We have examined this proposal carefully in respect of mineral turpentine oil and jute batching oil, of which the total annual sales are appreciable. A pricing formula for these products would involve determining import parity, as for major products. There are no published postings for these products in the Middle East, but the assessed prices ex-Bandar Mah-Shalar have been indicated by the private oil companies as ascertained from their affiliated suppliers abroad. There are no means of verifying that such prices represent the lowest f.o.bs. in the Middle East. There is no knowing how and when such assessed prices might vary in the future. All the same, it appears necessary to regulate the selling prices of these products, since they are essential raw materials for export-oriented industries like paint, rubber, textiles and jute. After a careful consideration of the matter, we have come to the conclusion that the selling prices of mineral turpentine oils and jute batching oil, ex-companies' storage points, should continue at the existing levels and that these products should be exempted from Block Control in respect of marketing/distribution charges and profit.

13.21 In respect of SBP spirits/hexanes/solvent oils, roofing material and household specialities, we find that the total volume of sales is relatively small. There is need to promote their indigenous production. Therefore, we propose to exempt these products, and similar other specialities that may be developed in future, from Block Control on marketing/distribution charges and profit.

CHAPTER FOURTEEN

Liquified Petroleum Gas (LPG)

14.1 The consumption of LPG as domestic fuel is on the increase. It is also being increasingly used in lieu of other fuels, in paint drying ovens, baking ovens, glass manufacture and metal industries; requiring accurate temperature control, rapid heating, low sulphur content, maintenance of constant atmospheric conditions, soot-free combustion and high combustion efficiency. The following sales figures of all the oil companies are indicative of the gradual progress in consumption :—

Year	Sales in tonnes to		Total (tonnes)
	bulk industrial consumers	domestic consumers	
1965	6,327	37,129	43,456
1966	9,417	48,116	57,533
1967	11,466	62,831	74,297
1968	15,409	84,041	99,450

14.2 Production at BSR and ESRC was normally at its maximum. There is scope for increased production at CORIL which has a licensed capacity of 20,000 tonnes/year. At Gauhati an LPG plant of 2,500 tonnes annual capacity is under construction with scope for expansion upto 6,000 tonnes/year and at Barauni a scheme for the modernization of the LPG bottling plant is being taken up. There will be further increase in production with the expansion of refining capacity at Koyali and on the commissioning of the Madras and Haldia refineries and also if CRL enters this field.

14.3 IOC is not selling LPG in bulk to any consumers. Caltex makes bulk supply to Coromandel Fertilizers and so do Burmah-Shell and Esso to industrial consumers in their area. The prices are charged on sliding scales related to annual offtake. We do not consider it necessary to recommend a price for LPG supplied to in bulk to industrial consumers because the value of such sales is comparatively small and the supplies are made mostly under long term arrangements.

14.4 For LPG as domestic fuel, the marketing arrangement differs from company to company. Esso does not sell LPG to domestic consumers directly. It supplies it at a contract price of about Rs. 359.00 per metric ton ex-refinery to Kosangas (Pvt.) Ltd. This is a partnership firm in which 10 per cent interest is held by Kosangas of Denmark and 90 per cent by the Indian partners. Esso is not a partner. Kosangas bottles the gas for marketing through its agents all over India at prices said to be determined by competitive factors. Caltex supplies LPG in bulk on an ex-installation basis to its principal distributor-East Coast Gas Company—which undertakes

all subsequent bottling and distribution arrangements. IOC and Burmah-Shell have their own arrangements for bottling and distribution to domestic consumers, through local authorised agents. Their arrangements are more in line with other major petroleum products. Their share of the total LPG sales as domestic fuel was 64 per cent in 1968; IOC's share is likely to increase in the coming years.

14.5 We have considered various alternative bases for determining the price of LPG. It is not practicable to estimate the cost of production of LPG, as of any other product of a refinery, separately. There is no posted price for LPG and reliable data about the prices at which supplies are made by the oil companies in the Persian Gulf are not available. In the circumstances we feel that the basis at present adopted by Burmah-Shell, which handles more than 60 per cent of the total sales to domestic consumers—viz., the landed cost of superior kerosene adjusted for calorific value is the only practical one. We propose to adopt the same basis.

14.6 According to Burmah-Shell's calculations in respect of supply in Bombay city, the element of marketing/distribution charges and profit realized is Rs. 7.07 per cylinder of 14.5 kg. or Rs. 488.00 per tonne. In our opinion, these charges are excessive. Burmah-Shell does not maintain separate accounts for marketing and distribution for bulk and packed supply of LPG. The overall cost for the year 1967, as examined by our Cost Accounts Officers, comes to Rs. 158.00 per tonne. Allowing for the extra expense of supply in cylinders for domestic use and the extra cost of rental and marketing/distribution charges at a total of Rs. 30.00 per tonne, the estimated marketing cost for LPG supplied in cylinders of 14.5 kg. will be Rs. 185.00 per tonne. Deducting this amount from Rs. 488.00 per tonne realized by Burmah-Shell on sales in Bombay, the company's profit per tonne comes to Rs. 303.00. The highest rate of profit allowed by us is for Aviation Gasoline at Rs. 34.00 per tonne. Having regard to all special factors which should be taken into account in determining the margin in respect of LPG, a profit of Rs. 1.00 per cylinder or Rs. 70.00 per tonne appears reasonable. It may be pointed out that the rental paid to the refinery by Burmah-Shell includes depreciation as well as interest @7 per cent on written down value of cylinders at the close of the year. In providing for the aforesaid profit margin of Rs. 70.00 per tonne, we have included extra 5 per cent on the assumption that the cylinders are normally owned by the marketing company. According to these calculations, the excess recovery by Burmah-Shell on sales in Bombay city works out to Rs. 3.63 per cylinder as shown below :—

	Realized by Burmah Shell		considered reasonable		Approx. Reduc- tion	
	Rs./ Cy- linder of 14.5 kg.	Rs./ tonne	Rs./cy- linder of 14.5 kg.	Rs./ tonne	Rs./cy- linder of 14.5 kg.	Rs./ tonne
1. Ex-refinery price inclusive of duty.	6.72	463.68	6.48	447.55	0.24	16.00
2. Marketing/distribution charges	7.07	488.00	2.68	185.00	3.39	233.00
3. Profit			1.00	70.00		
4. Total	13.79	951.68	10.16	702.55	3.63	249.00

A similar examination of the selling prices in Delhi, Kanpur and Calcutta shows that they are higher by Rs. 1·79, 3·30 and 4·96 per cylinder of 14·5 kg. respectively. The simple average of such excess in Bombay, Delhi, Kanpur and Calcutta works out to Rs. 3·42 per cylinder. Taking all factors into consideration, we recommend a reduction of Rs. 3·00 per cylinder of 14·5 kg. or Rs. 207·00 per tonne in respect of the selling prices of the private oil companies all over India. IOC is already charging 86 paise per cylinder less than Burhma-Shell. Accordingly, we recommend a reduction of Rs. 2·14 per cylinder of 14·5 kg. in the prices charged by IOC.



सत्यमेव जयते

CHAPTER FIFTEEN

Naphtha

15.1 Naphtha is a raw material for the manufacture of fertilizer and petro-chemicals. In fertilizer manufacture, it is used mainly for the production of hydrogen by steam reforming and partial oxidation processes, for conversion ultimately into ammonia. As feedstock for petro-chemicals, it is required in the production of aromatics or is cracked to produce olefines. Both the fertilizer and the petro-chemical industries require substantial investment and their growth is of vital importance to the economy. The ex-refinery ceiling price of naphtha have hitherto been based on import parity of bunker 'C' fuel with adjustment for calorific value. There is at present a surplus of naphtha. However, a special Study Group set up by Government has made the following estimates of the future availability of naphtha, taking into account the existing and proposed refining capacity in the country and the requirements of the fertilizer and petro-chemical industries.

(all figures in '000 tonnes)

Naphtha	1970	1971	1972	1973	1974	1975
(i) Demand	1491	1898	2343	3648	4568	4718
(ii) Production	1820	1861	2267	2630	2529	2422
(iii) Surplus (+)/Deficit(—)	+329	—37	—76	—1018	—2039	—2296

15.2 To meet the anticipated deficit the Indian Institute of Petroleum had earlier examined the feasibility of introducing various measures to augment production, viz., processing of lighter crudes, raising the end-point of naphtha and production of naphtha by means of secondary refining technique. All these methods were found uneconomic because of the low realization on naphtha under the existing price formula. The Study Group, therefore, came to the conclusion that when a shortfall arises, it would be necessary to make it up by imports or by increasing the refining capacity in such a way that no surplus of other products results. The third alternative would be to base fertilizer plants on raw materials other than naphtha and use the available supply of naphtha only for existing plants.

15.3 We find that during the next three years the supply position of naphtha is going to be one of surplus or virtually in balance. We, therefore, consider it unnecessary to shift immediately to the import parity basis in determining the prices of naphtha. We do not agree with the oil companies that the existing price basis has become out of date merely because posted prices for naphtha are now available. Import parity is not a proper basis for fixing the prices of a surplus product. The adoption of import parity would mean a virtually 100 per cent rise in the price of naphtha and we feel that we must take account of the immediate repercussions of such a steep rise on the consuming industry and on the economy in general. The incidence of the cost of naphtha at the current rate

on the cost of production of various types of fertilizers varies from 4 to 38 per cent. In the case of petro-chemicals the average cost of naphtha is nearly 43 per cent of the total variable cost. Thus, in both cases, the cost of naphtha forms a substantial element in the total cost of production of the end-products. Approximately 60 per cent of the total consumption of naphtha is as feedstock for fertilizers. We are, therefore, unable to accept import parity as the basis for determining the price of naphtha.

15.4 The Ministry of Petroleum and Chemicals in a communication to the Committee in June, 1969, suggested that the c.i.f. price of crude oil could be a more suitable basis for determining the price of naphtha than that of bunker 'C' fuel used at present. The Ministry felt that this would meet the point that the net recovery of the oil companies at the present price of naphtha was not sufficient to cover even the cost of crude. We have carefully considered the proposal, but find no logical reason to link the price of naphtha with that of crude. Naphtha is produced jointly with several products from the same stream and there is no way to determine its raw material cost separately. A refinery's realization has to be in fair relation to its costs in the aggregate and there is no evidence to show that the lower price of naphtha has unduly reduced the overall profitability of petroleum refining in India. In the export market naphtha has had to be sold for what it can fetch and the netback to the refineries from their export sales has come down from about Rs. 130 to Rs. 110 per tonne over the last few years. Naphtha is a surplus product and it would be appropriate to treat it on par with one of the low priced products of the refineries. It is a raw material for the production of fertilizers the price of which has also to be maintained as low as possible, in order to encourage their consumption and thus increase agricultural production. It was on this reasoning that in the previous inquiries the price of naphtha was based on the import parity for bunker 'C' fuel. We do not see any reason to depart from this approach, however since bunker 'C' fuel is no longer posted, we propose to substitute it by light fuel, another low priced product, for which a posted price is now available, we have calculated the import parity for light fuel by applying the same rate of discount to its posted price as in the case of other products, vide statement No. 15. The ceiling prices recommended by us will apply to straight run naphtha supplied to the fertilizer and the petrochemical industries and are exclusive of transportation charge which may be left to be determined by direct agreement between the buyer and the seller. The price recommended by us is without prejudice to any transport charges specifically provided for in such agreements.

15.5 A small quantity of naphtha is also used as industrial fuel. We have not considered it necessary to fix a price for naphtha for this purpose and would leave the matter to be decided by Government.

15.6 Messrs. Zuari Agro Chemicals Ltd., Bombay have represented that Mormugao should be a pricing point for naphtha as it is for bulk refined products. We accept this view and recommended that all the main eight ports and the inland refineries should be the pricing points for naphtha as they would be for other bulk refined products. All under/over-recoveries of freight on coastal movement and inland rail movement of naphtha may be dealt with in the manner suggested elsewhere for bulk refined products subject to the condition that such under/over-recoveries should be reflected in the selling prices of this product only.

CHAPTER SIXTEEN

Special Products

Our recommendations in regard to the prices of important special products produced at the various refineries are as under :—

(i) **Carbon Black Feed Stock (CBFS)** : This is produced by Burmah Shell and Ess refineries only. Its total production in 1968 was of the order of 25,000 tonnes. The entire production is sold to United Carbon Ltd. under long-term agreement at negotiated prices. In view of its limited production and the fact that it is sold to a single consumer against a long term contract, we propose to exclude it from the scheme of price control.

(ii) **Hot Heavy Stock (HHS)** : This is produced at Esso refinery and sold to Tatas against a longterm contract at a price fixed essentially on the principle of import parity before devaluation of the rupee. The order of sales in 1968 was 208,000 tonnes. As the sales are limited to a single consumer, no price formulation is proposed for this product also.

(iii) **Iomex** : The bulk of this product is supplied by IOC to Phillips Carbon Black Ltd. at a negotiated price for manufacture of carbon black and the balance is sold to the pesticides industry at HSD price. The total sale in 1968-69 was of the order of 33,000 tonnes. In view of its limited production and the fact that it is used only by a few industries, it is not considered necessary to prescribe a price for this product.

(iv) **JP-4/JP-5** : JP-4 is mainly produced at the public sector refineries and JP-5 is imported in small quantities. Both these products are mostly supplied to Defence establishments at special or negotiated prices. We, therefore, see no need to bring them under price control.

(v) **Low Sulphur Heavy Stock (LSHS)** : This product is supplied ex-Barauni to TISCO for use as fuel in the steel plant at a negotiated price. It is understood that the price includes an element for amortization of the facilities specially installed at an approximate cost of Rs. 1.2 million at the loading and unloading points to facilitate rail transportation of the product. This special feature of the product precludes it from the application of a pricing formula.

(vi) **Malarial Larvicidal Oil** : This is a blend of light diesel oil and some additives. The total annual sales are of the order of 12,000 tonnes only. In view of the small volume involved, we have not considered it necessary to recommend a price for this product. The existing system of pricing at the rate applicable to light diesel oil plus a margin to cover the blending cost is reasonable.

(vii) **Petroleum Coke** : This is a residual by-product obtained from the processing of crude oil. It can serve as a domestic fuel or raw material for calcium carbide industries. It is also calcined to make it useful in the ferrous and non-ferrous metallurgy, recarburizing operations, production of amorphous carbon products etc. At present, raw petroleum coke is produced by the refineries in Assam and Bihar, while calcined petroleum coke is manufactured by India Carbon Ltd.

The current annual production is of the order of 117,000 tonnes, of which about 13,000 tonnes are produced at Digboi, 44,000 tonnes at Gauhati and 60,000 tonnes at Barauni. About half the production at Digboi, the entire production at Gauhati and a part of the production at Barauni is committed to India Carbon Ltd. for use in its calcination plant. The price payable varies from customer to customer from Rs. 80.00 to 120.00 per tonne, ex/f.c.r. refineries exclusive of duty and taxes. The remaining quantity at Digboi is sold to AOC's employees for use as domestic fuel at Rs. 29.00 per tonne exclusive of Assam Sales Tax @6 per cent. Some exports of petroleum coke took place in 1967 and 1968 through the State Trading Corporation. IOC recovers from the State Trading Corporation about two-thirds of the price at which raw petroleum coke is sold ex-Gauhati.

We do not propose to recommend a price for this product as it is available in limited quantities in the Eastern region only and sold to certain industrial consumers against long-term contracts. We would, however, suggest in this context that this material should be used for industrial purposes to the maximum extent possible and that its use as domestic fuel should be curtailed to the minimum. Considering that S.T.C. was able to secure a price of Rs. 80 per tonne on exports, the possibility of exporting larger quantities of this material should be explored.

(viii) **Pesticides** : Esso alone markets pesticides, insecticides and fungicides for household and agricultural use. The total sales in 1968 were approximately 9,000 tonnes only. We do not propose to include these chemicals in the price formulation as they are produced by other industries besides the oil industry whose share in the total supply is small.

(ix) **Refinery Gas** : The amount of refinery gas available for sale varies from one refinery to another depending upon the refinery's own requirements of fuel, production of liquified petroleum gas and the minimum amount required to be flared as a measure of safety. A small quantity is produced at the Burmah-Shell refinery for supply to the Fertilizer Corporation of India, Trombay, as feedstock for fertilizer manufacture and to the Tata Thermal Station for power generation. The supply to the Fertilizer Corporation is made under a long term contract valid upto 1975 and based on the import parity of fuel oil corrected for calorific value. The Tata Thermal Station pays a negotiated price. These arrangements are working satisfactorily and we have, therefore, not found it necessary to prescribe a price for refinery gas.

(x) **Residual Fuel Oil (RFO)** : This product of the Koyali refinery is supplied to the Dhuvaran Unit of the Gujarat State Electricity Board and the Tata Thermal Station at Bombay. At present the Dhuvaran Power House is paying for this product at the rate of Rs. 45 per tonne, but this rate has not been finally accepted by the Corporation. The price of RFO has been under discussion between IOC and the Government of Gujarat since 1962. In this connection the Government of Gujarat have referred to Dr. V. K. R. V. Rao's Award fixing the price of the Gujarat gas at Rs. 50 per thousand cm. and have suggested that taking into account the relative thermal value, the fair price of RFO would be Rs. 42 per tonne. The Government of Gujarat have urged 'that the crude produced in the State is quite cheap and yet is charged a price by ONGC which yields enormous profits'. From this they conclude that if ONGC reduced the price of crude to the Koyali refinery, the latter could afford to sell RFO at a much lower

price than at present. The Working Group on Oil Prices did not recommend a price for RFO but left it to be settled by negotiations between the IOC and the consumers. However, no agreement yet has been reached and in the meantime a price of Rs. 45 per tonne is being charged on an *ad hoc* basis.

Since IOC and the Government of Gujarat have failed to settle the price by negotiations and the matter has remained pending for many years, we are constrained to examine the merits of the case and recommend a price. We feel that in fixing the price of this by-product, regard should be had not only to the price of the alternative fuel which it replaces, but also to the relative effects of an increase (or decrease) in price on the economics of the producing and the consuming industries. The price of a by-product should normally be fixed "as high as the traffic can bear". In the case of RFO the Gujarat State Electricity Board, which is already making losses, cannot afford to pay a higher price. An increase in price will aggravate the strain on its resources, and as a consequence its capacity to extend its services to agriculture and industry will be adversely affected. At the same time, having regard to the cost of substitute fuels, there is no room for any appreciable reduction in the present price. We have, therefore, come to the conclusion that it would be fair to IOC and the Gujarat State Electricity Board that the price of RFO should be Rs. 45 per tonne at the company's storage point for supply to the Dhuvaran plant. The prices to other consumers in Gujarat should be also fixed in parity with this price.

(xi) **Tea Drier Oil (TDO)** : This product is used in the Assam area in tea processing establishments and its price is fixed at any location by adding Rs. 9.19 per kl to the selling price of furnace oil at that location. This practice has been in vogue for many years. The total annual sales are small, being only 88,000 tonnes per annum for IOC and AOC taken together. We have received no representation against the existing price. We do not, therefore, propose to include this product in the scheme of price control.

CHAPTER SEVENTEEN

Pack/Bulk Differential for 18.5 Liter Tins

17.1 Kerosene is sold in packed containers of 18.5 litre tins. The ceiling selling price for this product contains this differential for supplies in packed containers. Up to 1967, the private oil companies were either manufacturing these tins at certain locations or obtaining fabricated tins from outside agencies. Since the middle of 1968, the private oil companies have dispensed with the sales in containers and it is understood that IOC alone will maintain the practice of selling kerosene in packed form. IOC has bought over the tin fabricating plant of Burmah-Shell at Ernakulam. At other stations, IOC is getting tins fabricated by outside agencies. We have, therefore, used the cost data for IOC to fix the differentials for 18.5 litre tins. From the data made available to us, IOC has been getting 854 to 870 tins per tonne of tin plate. The current price formulation is based on an average production of 865 tins per tonne i.e. a consumption factor of 1.155 kg. per tin. There is no reason why IOC should not be able to get 870 tins per tonne of tin plate on an all-India average when they are getting the same in Northern and Southern Zones. Hence, it will be justifiable to adopt a yield of 870 tins per tonne of tin plate or a consumption factor of 1.15 kg. per tin. The average all-India price (on the latest rates of supply known in May, 1969) per tonne of tin plate comes to Rs. 2,663 for IOC. On this basis, the net cost of material works out to Rs. 3.06 per tin. As against the total fabricating and filling charges of 40 paise per tin assumed in the current price formulation, the experience of IOC at different places revealed a range of 47 paise to 80 paise per tin during 1967-68, resulting in an all-India average of 65 paise. We feel that an average of 54 paise per tin inclusive of filling charges should be the ceiling within which IOC should be able to operate.

17.2 On this basis, the packed/bulk differential for 18.5 litre tins is estimated as under :—

	(Rs./tin.)
1. Cost of material	
1.15 kg. of tin plate @Rs. 2.663 per kg.	3.06
2. Manufacturing and filling charges	0.54
TOTAL	3.60

This differential has been adopted in the relevant cost schedules. Escalation may be allowed for any variation in the average all-India price of tin plate as compared with the price of Rs. 2.663 per kg. adopted by us on the basis of standard consumption of 1.15 kg. of tin plate per tin. The existing differential is Rs. 3.44 and the increase is mostly attributable to the higher manufacturing and filling charges assumed in our computation on the basis of IOC's experience.

CHAPTER EIGHTEEN

Future Estimate of Marketing and Distribution Charges

18.1 In our estimate, IOC, Burmah-Shell, Esso and Caltex will meet during the years 1970 to 1972 about 95 per cent of the total demand in the country and handle amongst themselves 23.20 million kl of bulk refined products, bitumens, lubricants, greases, specialities, LPG and naphtha. We have, therefore, estimated the future marketing/distribution charges of these four companies.

18.2 The marketing and distribution charges of petroleum products comprise of fixed and varying expenses. The latter depend upon both volume and products mix and also the proportion of retail and wholesale trade of the individual company.

18.3 Adopting 1962 as the base year, we ascertained the total marketing and distribution charges of each of these companies for the years 1963, 1966 and 1967 and developed our projection on that basis. The foreign oil companies have a scheme of payment of voluntary retirement benefits for premature retirement. We have presumed that the net establishment charges as well as a portion of the voluntary retirement benefits are not likely to exceed in the years 1970, 1971 and 1972 the level prevailing in 1967. The saving, if any, in such charges may arise after 1972 only. We have also made adequate provision for anticipated increase in the general level of prices and increments to staff etc. IOC has contended that in order to keep pace with the growing demand, it has to embark on a heavy expansion scheme for installation, up-country storage and retail facilities. Though no complete details of such a scheme were available, we have recognised this fact in our projection. The marketing and distribution charges for the individual bulk refined products, bitumen, lubes and greases, etc. estimated buy us for future for the four companies are tabulated as under *vis-a-vis* the actual for the year 1967. These charges are exclusive of the costs incurred by the marketing companies in delivery of aviation spirit and aviation turbine fuel at the airfield outlets and in delivery of motor spirit and high speed diesel oil at Retail Pump outlets within the free delivery zone. Such costs have been computed separately and included in the respective statements containing the recommended ceiling prices.

Rupees/Selling Units (Kl or tonne as applicable)

Burmah-Shell

Products	Instal- lation	Admn.	Distri- bution	Air- field R.P.O.	Total	Actual for 1967
1. Aviation spirit . . .	49.03	21.49	14.99	64.76	150.27	115.59
2. Aviation turbine fuel . . .	6.98	9.42	7.85	18.09	42.34	39.87
3. Motor spirit . . .	9.36	18.96	13.03	7.82	49.17	47.37
4. High speed diesel oil . . .	5.64	14.96	12.36	7.29	40.25	42.41
5. Kerosenes . . .	7.09	10.04	15.69	..	32.82	30.69
6. Light diesel oil . . .	5.44	7.21	8.48	..	21.13	20.65
7. Furnace oil . . .	4.62	4.10	5.18	..	13.90	11.79
8. Bitumen . . .	11.09	5.99	4.63	..	21.71	22.60
9. Lubricants/greases . . .	37.85	30.25	51.75	..	119.85	105.56
10. Other products . . .	6.49	7.61	1.66	..	15.76	15.29

Rupees/Selling Units (Kl or tonne as applicable)

Esso

Products	Instal- lation	Admn.	Distri- bution	Air- field R.P.O.	Total	Actual for 1967
1. Aviation spirit . . .	..	..	..	..	..	..
2. Aviation turbine fuel . . .	3.38	11.41	7.36	31.15	53.30	42.89
3. Motor spirit . . .	7.66	22.97	15.54	11.03	57.20	56.05
4. High speed diesel oil . . .	5.72	18.12	12.73	8.69	45.26	52.95
5. Kerosenes . . .	4.84	12.16	10.84	..	27.84	25.25
6. Light diesel oil . . .	3.05	8.73	7.64	..	19.42	19.39
7. Furnace oil . . .	1.76	4.97	3.73	..	10.46	8.87
8. Bitumen . . .	2.80	7.24	4.93	..	14.97	17.06
9. Lubricants/greases . . .	10.45	37.93	24.30	..	72.68	65.12
10. Other products . . .	5.70	11.22	9.53	..	26.45	29.07

Caltex

1. Aviation spirit . . .	..	..	..	..	..	..
2. Aviation turbine fuel . . .	3.82	11.16	3.13	30.09	48.20	32.21
3. Motor spirit . . .	9.32	22.45	20.65	13.11	65.53	61.86
4. High speed diesel oil . . .	6.02	17.71	17.50	10.32	51.55	54.90
5. Kerosenes . . .	4.36	11.89	7.29	..	23.54	23.00
6. Light diesel oil . . .	2.73	8.52	5.66	..	16.91	17.69
7. Furnace oil . . .	1.59	4.86	1.99	..	8.44	11.37
8. Bitumen . . .	2.49	7.08	2.07	..	11.64	15.70
9. Lubricants/greases . . .	14.80	40.16	22.11	30.91	107.98	85.03
10. Other products . . .	3.66	10.41	3.05	..	17.12	19.96

IOC

1. Aviation spirit . . .	15.29	9.32	13.29	34.92	72.82	90.48
2. Aviation turbine fuel . . .	3.94	4.09	4.41	15.69	28.13	34.10
3. Motor spirit . . .	8.21	8.21	7.69	6.71	30.82	39.03
4. High speed diesel oil . . .	5.52	6.48	5.02	5.28	22.30	30.75
5. Kerosenes . . .	3.75	4.28	3.98	..	12.01	16.71
6. Light diesel oil . . .	2.32	3.12	2.91	..	8.35	11.69
7. Furnace oil . . .	1.50	1.78	1.35	..	4.64	5.70
8. Bitumen . . .	2.34	2.59	1.74	..	6.67	11.84
9. Lubricants/greases . . .	11.90	14.38	9.68	..	35.96	50.67
10. Other products . . .	4.12	3.86	2.73	..	10.71	14.36

18.4 The average charges during 1967 per kl of sales came to about Rs. 20 in the case of IOC (1967-68) while they ranged between Rs. 34 to Rs. 37 in the case of the foreign oil companies. In comparing these figures, it should be remembered that marketing charges depend upon the product mix and the proportion of retail to wholesale trade; the accounting procedures also vary; even so these figures provide a broad comparison of the relative costs of distribution incurred by the four companies. The product pattern is not likely to vary significantly from that adopted by us, but IOC may gradually handle an increasing share of the retail trade.

The differences in marketing costs are mainly explained by establishment costs and overheads. Establishment charges inclusive of all fringe benefits by and large constitute near about 50 per cent of the average marketing charges per unit of sale in the case of the foreign oil companies and about 30 per cent in the case of IOC. Moreover, the incidence of overheads and other miscellaneous expenses of IOC is also widely different from that of the foreign oil companies.

18.5 The incidence of establishment costs depends on the total strength and the level of emoluments. As compared with IOC, the staff per kilolitre was about 40 per cent higher in the case of foreign oil companies. The labour employed was almost equal but the clerical staff was one and a half times and the managerial staff 20 times as high as in IOC, in terms of personnel. The average emoluments in all the categories were lower in the case of IOC. These factors accounted for a difference of more than Rs. 10 per kl of sales between IOC and the foreign oil companies.

18.6 As stated earlier, IOC alone will handle more than half of the internal trade and the four companies will together meet about 95 per cent of the total trade in the products covered by price control. There is undoubtedly considerable room for economy in the case of the foreign oil companies. However, we feel that the foreign oil companies should be allowed reasonable time to effect such economy in order to soften its impact on employment and the established channels of distribution.

18.7 After a careful study of the various elements going into the marketing costs of the four companies and the future trends of their operations, we have come to the conclusion that the following rates of marketing charges for the various products would be fair and reasonable :

Products	Unit of Sale	As per current price formulation	As estimated by us
		Rs.	Rs.
Aviation spirit	KL	85.25	119.44
Aviation turbine fuel	KL	40.88	47.21
Motor spirit	KL	53.79	52.37
High speed diesel oil	KL	38.37	39.22
Kerosene superior/inferior	KL	23.79	24.05
Light diesel oil	KL	17.65	16.45
Furnace oil	KL	6.60	9.36
Bitumen	MT	22.90	13.75
Lubes and Greases	KL	73.73	84.12

CHAPTER NINETEEN

Return on Capital Employed in Marketing

19.1 The existing price formula provides for gross return for the marketing activity at 12 per cent on capital employed comprising of net fixed assets and working capital at an equivalent to one-sixth of the annual cost of sales. The private oil companies have represented that this rate of return is inadequate, especially when the price formulation does not take account of certain expenses incurred in the ordinary course of business, such as, bad debts, donations, rebates as well as bonus, which is now a mandatory payment. It has also been stated that there has been a general increase in the rates of interest and taxes, which has further reduced the net return on capital. The companies have argued further that the return on capital offered to a foreign investor should not be less than the return available elsewhere in the world or that earned by the investors in other industries in India.

19.2 In disallowing certain items, we have adhered to the general practice in this regard followed by the Tariff Commission and other price fixation bodies. In this respect the oil industry has not been treated differently from other industries. The rate of return at 12 per cent on capital employed is also the same as that normally allowed to other industries in fixing prices for their products. We consider this return to be fair and reasonable. A comparison of this return with that available in other parts of the world is impracticable and may be misleading.

19.3 Based on the figures of IOC, Burmah-Shell, Esso and Caltex, we have estimated the net value of the block at Rs. 32.16 per kl. At this figure, the net value of the block for the anticipated volume of 19.12 million kl. of bulk refined products, bitumens and lubes and greases (excluding LPG, naphtha and specialties) will amount to Rs. 615 million. At this figure the net value of the block for the anticipated volume of 23.29 million kl. including LPG, naphtha but excluding special products, will amount to Rs. 750 million. As regards working capital, an analysis of the published accounts of the oil companies indicates that their working capital requirements ranged from a low of 3.5 per cent to a high of 16.8 per cent of the annual cost of sales. This wide variation is due to differences in the product mix as well as in the manner of treating inter-company transactions. We are of the opinion that it would be adequate to provide for working capital at 10 per cent of the annual cost of sales, i.e. about 5 to 6 weeks sales. On this basis, we have assessed the working capital at Rs. 1,017 million for the anticipated volume of 19.12 million kl. (of bulk refined products, bitumens, lubes and greases but excluding LPG, naphtha and specialties) or Rs. 53.19 per kl of all products. Thus the total capital employed has been estimated by us at Rs. 85.35 per kl on an average for all products, included in the scheme of price control. A return of 12 per cent on the total capital employed of Rs. 1,632 million for the anticipated volume of 19.12 million kl. will amount to Rs. 195.84 million. This when related to the cost of sales will work out to 2.09 per cent.

19.4 On this basis the profit per unit of each product allowed by us is shown below together with the profit allowed in the existing price formulation.

Products	Selling Unit	As in the existing price formulation	As allowed by us
		Rs.	Rs.
Aviation spirit 100/130	KL	21.89	21.62
Aviation spirit 115/145	KL	22.31	22.11
Aviation spirit 73 clear	KL	21.19	20.82
Aviation turbine fuel	KL	11.47	9.44
Motor spirit 79	KL	19.18	17.15
Motor spirit 93	KL	19.18	18.02
High speed diesel oil	KL	17.64	13.39
Kerosene superior	KL	11.44	8.69
Kerosene Inferior	KL	7.73	4.44
Light diesel oil	KL	6.95	5.30
Furnace oil	KL	4.58	3.09
Bitumen St.	MT	8.84	6.66
Bitumen cutback BS	MT	9.85	7.75
Bitumen cutback RC	MT	10.13	8.02
Lubes and Greases	KL	20.63	23.60

CHAPTER TWENTY

Dealer's Commission on Motor Spirit and High Speed Diesel oil:

20.1 The sale of automotive fuels (viz. motor spirit and high speed diesel oil) through retail outlets is the last stage of the channel of distribution. In the report of the Retail Outlets (Morarka) Committee such outlets have been classified as follows :—

(i) Company-owned and operated :

Only Esso and IOC have such outlets and they are very few in number. They are fully financed and run departmentally by the companies.

(ii) Company-owned and dealer operated :

As on the 1st January, 1967, this category accounted for more than half the total outlets in India. They are owned and financed by the oil companies but run by the dealers, on payment of licence fees.

(iii) Company leased and dealer operated :

The management of such outlets is not different from that of the preceding category but the investment on facilities at such outlets is provided either by a third party or by the dealer, who, in turn, leases the outlet to the company. Thereafter, the company appoints a dealer for running the outlet by levying a licence fee.

(iv) Dealer-owned and operated :

The entire financing of such outlets is done by the dealers, the oil companies only providing the tank and the pumps, as in other cases, at a nominal rental of Re. 1.00 per month per pump and tank. Such outlets account for a little over one-third of the total.

20.2 The relations between the oil companies and the dealers for the operation of the outlets of the last three categories are governed by dealership agreements.

20.3 We have received representations from the Federation of All India Petroleum Traders that the existing rates of commission should be enhanced to enable the dealers to earn a reasonable margin of profit on their investment.

20.4 The commission on motor spirit was revised in 1954 from two annas to three annas per Imperial Gallon. The commission on high speed diesel oil was revised in 1955 from nine pies to anna one and three pies per I.G. These rates have remained unchanged except for conversion to kilolitre as under :

motor spirit
high speed diesel oil

Rs. 41.80/KL
Rs. 17.60/KL

20.5 In addition to the commission, in some States, the dealers have been recovering for a number of years a service charge upto 2 paise per litre on HSD. This recovery appears to have been introduced by the various dealers' associations in the respective areas and blessed by their Federation. The service charge is shown as a separate item in the bill and not included in the price of the product. More and more dealers' associations seem to be following this practice.

20.6 All pumps, tanks and pipeline fittings etc. are provided by the companies at pump sites whether the pump sites are owned/leased by the companies or not. At pump sites owned or leased by the companies, other facilities such as driveways, sales rooms, service bays, water and drainage connections, toilets etc. are also provided depending upon the needs of the site and the market. All facilities belonging to the companies are normally maintained by them. Interest bearing loans are also extended to dealers in special cases. Allowances for illumination, propaganda, advertisement, service uniforms for forecourt staff etc. are provided by the companies on a selective basis.

20.7 In the case of sites not belonging to the companies, a nominal licence fee is charged to establish the company's ownership of pumps and tanks. In respect of sites, owned or leased by the companies, the licence fees are determined by the companies on the basis of their investment, facilities provided, rents and taxes payable, sales potential etc. and the quantum is reviewed from time to time. In such cases the fees vary from company to company, from one Branch of a company to another Branch and from dealer to dealer of the same company in the same locality. However, IOC's policy on the recovery of licence fees is uniform throughout the country. A retail outlet is deemed to be justified on the basis of sales anticipated for a period from 5 to 7 years and 20 per cent of the annual gross profits envisaged for the dealer yearly is taken as the licence fee payable by him to IOC. The total amounts of licence fees collected in recent years were as under :—

('000 Rupees)

	1965	1966	1967	1968
Burmah-Shell	4,766	5,602	6,317	6,792
Esso	5,076	4,971	4,898	5,308
Caltex	1,865	1,921	1,907	1,978
AOC	113	169	190	189
IBPC	312	413	491	526
IOC (Financial year)	330	564	973	1,208

20.8 The Federation of All-India Petroleum Traders have sought an increase in the rates of commission on the following grounds :—

- (i) There has been considerable increase in selling prices of these products over the last ten years mainly due to increase in duties and taxes and wharfage, etc. This has entailed an increase in the value of stocks and book debts, leading to an increase in

working capital requirements. Further, there has also been increase in dealers' investment due to higher cost of filling station equipment, and, also increase in expenses due to enhancement of the licence fees charged by the oil companies, increase in electricity bills and normal business expenditure, higher money value of evaporation losses and increased liability under Government legislation governing staff. Thus, the dealers' gross income has lagged behind the general rise in prices and cost of living.

- (ii) The Federation maintains that sales of motor spirit per outlet have generally remained static and in some cases have actually gone down. The increase in HSD sales is marginal.

20.9 One of the oil companies has furnished the following statement showing the shift over the years from motor spirit to high speed diesel in the retail trade :—

Industry sales through retail outlets

Year	MS(Kl)	HSD(Kl)	Ratio of MS to HSD
1954	10,47,700	68,400	94:6
1962	10,76,774	12,90,278	45 :55
1966	13,23,156	18,01,708	42:58

In a period of ten years, HSD has become the major product with 58 per cent sales. The calculated growth rate upto 1975 is 6 per cent for motor spirit and 13 per cent for high speed diesel oil. The latter will become the predominant automotive fuel in the future. As stated earlier the rate of commission on motor spirit is higher than HSD. Thus, two retail outlets with the same level of sales and operating costs will have vastly different profit results with varying product-mix. According to a study made by Esso of the operations of its dealers in 1966/1967, the average pre-tax income including income from other sources was stated to be Rs. 22 per kl. of motor spirit at predominantly motor spirit service stations, Rs. 13 per kl. at service stations where motor spirit and HSD sales were almost at the same level and Rs. 10 per kl. at predominantly HSD service stations. Most of the retail outlets in India are service stations where motor spirit and HSD sales are almost at the same level or HSD sales are predominant. These outlets are reported to have an average MS/HSD sales between 41 and 31 kl. per month. At the aforesaid pre-tax income rates, most of the dealers are thus reported to earn on an average between Rs. 533 and Rs. 310 per month. The further shift from MS to HSD will adversely affect the aforesaid income rate also.

20.10 The Federation of All India Petroleum Traders has urged that the commission should be fixed as a percentage of the selling price instead of on the existing kilolitre basis, and that it should be 10 per cent. At present, it is about 4.5 per cent in respect of motor spirit and about 2.5 per cent in respect of HSD of the selling prices at main ports inclusive of all surcharges but exclusive of dealer's commission and sales tax.

20-11 The oil companies have supported the case for an increase in commission because of the increase in the selling prices of these products and the increase in the operating expenses of the dealers. They are of the view that the level of HSD commission is disproportionate in relation to that of motor spirit whereas the dealer's overhead costs are practically the same for both the products. The retail margins on other commodities are higher. One company considers 7½ per cent as a justifiable rate for both the products. All companies are opposed to the increase in the rates of commission being borne by them as their profitability is controlled under the price formulation and have suggested corresponding increases in the selling prices to the consumers.

20-12 The Morarka Committee had suggested replanning the future growth of retail outlets to progressively improve their throughputs in the future. Government have accepted this recommendation and issued necessary instructions to the oil companies. The Committee has also suggested the sale of fertilizers and pesticides through retail outlets serving the farming areas.

20-13 We have carefully examined the case put forward by the Federation of All India Petroleum Traders for an increase in the dealers' commission. While the rise in the basic prices of motor spirit since 1954 and those of HSD since 1955, has reduced the dealers' commission as a percentage of the price, the dealers' overall income has improved owing to the increase in the turnover which has taken place over the years. The consumption of motor spirit is expected to rise at 6 per cent per annum and that of HSD at 13 per cent per annum for the next few years and the dealers can, therefore, look forward to an increase in their income on this account. Secondly, the Federation's contention that the rates of commission have remained unchanged since 1955 whereas prices and cost of living have gone up generally, overlooks the fact that over a large part of the country dealers in HSD have been recovering a service charge of 2 paise per litre which works out to Rs. 20.00 per kl. Their aggregate commission thus comes to Rs. 37.60 per kl. as against the officially prescribed rate of Rs. 17.60 per kl. on which the Federation's contention is based. Thirdly, the service charge of Rs. 20.00 per kl. of HSD has already narrowed down the former disparity between the rate of commission on this product and that on motor spirit and although the rate of commission for HSD still remains lower than that for motor spirit, HSD has become the major source of income for the dealers because of its predominance in total sales. We feel that the adjustment which has already come about through the levy of the service charge on HSD and which has in effect more than doubled the rate of commission of that product, has adequately met the requirements of this case. In the case of essential products like motor spirit and HSD, we have to balance the claims of the dealers with the wider interests of the consuming public. The dealers' commission constitutes virtually the last element in the pricing process and we feel that the objective of keeping down costs to the minimum which has guided us with respect to the other elements of costs is of equal importance in the case of this element. Following a recommendation of the Morarka Committee, Government have already issued instructions to the oil companies to plan the future growth of retail outlets so as to bring about an increase in their throughput. We would recommend continued efforts in this direction in order that the dealers' income may not be reduced through undue competition. As suggested by the Morarka Committee, it should be possible for the dealers to absorb some of their overhead

in other activities such as the sale of lubricants and accessories as well as fertilizers and insecticides for which there will be a growing demand in the countryside. The Federation has asked for a change over from the volumetric to the value basis in fixing the rates of commission. The volumetric system has been in existence for many years and has the obvious advantage of simplicity and convenience. Although a rise in the cost of a product entails additional cost to the dealer by way of interest on working capital, the proportion of cash sales has increased in recent years and this has enabled the dealers to keep down their working capital requirement. We feel, therefore, that the present system of fixed rates on volumetric basis should continue. We recommend that the dealers' commission on motor spirit may remain unchanged at the present rate of Rs. 41.80 per kl. and that on HSD be revised to Rs. 37.60 per kl., thus merging the service charge with the commission. This will mean an increase in the rate of commission on HSD in those parts of the country where no service charge is being recovered at present. Elsewhere, the additional benefit to the dealers will accrue only from the continuing increase in the turnover. Since the revised commission for HSD is inclusive of the service charge, the dealers should refrain from recovering a service charge in future.

20.14 In respect of sites owned and leased by the companies, the Federation has represented that retail outlets are often offered to the dealers initially at low rentals, which are later increased to higher levels by unilateral action. The Federation has suggested a slab system of recovery based on throughputs in a retail outlet so that the dealers have an idea of the amount payable on this account.

20.15 This question was also raised by the Federation before the Retail Outlets Committee, which made no comments on it. The comments of the oil companies on this proposal are that they make no illegitimate profit in fixing the rates of licence fees and that in fact the total recoveries fall short of the actual expenses towards depreciation, land rental, taxes, maintenance etc. These recoveries are credited to the retail outlet expenses and the net expenses only are taken into account in the price mechanism for determination of the retail pump outlet expenses. If the proposal of the Federation is adopted, the licence fee recoveries will have to be reduced. This will result in an increase of retail outlet expenses, which will have to be borne by the consumers of motor spirit and high speed diesel oil. The private oil companies hold the view that a uniform basis of licence fee recovery is not feasible on account of the differences, from outlet to outlet, in the investment of the companies on the facilities provided, the level of land rentals and taxes paid, the level of operating expenses and the varying profitability of the dealers. In the opinion of IOC the adoption of a slab system as proposed by the Federation may act as a disincentive to the oil companies to develop and equip retail outlets and thus affect the long term interests of the dealers themselves.

20.16 We have considered the points of view of both the parties. As stated earlier the establishment of retail outlets is an essential link in the distribution chain, which the oil companies must provide in their trading interest. There is also need to protect the dealers from the uncertainty inherent in the present arrangement. We, therefore, recommend that the licence fees charged to any dealer operating a retail outlet owned or leased by an oil company, should remain unchanged at the average rate actually charged to that dealer during the last completed financial year of the company. However, if the commission earned by any dealer increases above

the amount earned by him in the last completed financial year by substantially more than 50 per cent, the licence fee may be raised but by not more than 5 per cent of such increase, subject to the principle that no increase in licence fees should be made except where such increase is essential to earn a reasonable return on the investment made by the oil company. A new outlet may not earn enough in the first year of its operation to warrant a licence fee being levied, but if any licensing fee is to be levied at all, it should not exceed 10 per cent of the commission earned by the dealer in that year.

20·17 The Federation has also drawn our attention to certain harsh clauses in the dealership agreements concluded with the oil companies which allegedly create a sense of uncertainty for the dealers or their successors. We would recommend that Government should look into such agreements in order to remove such sense of insecurity in the interest of prompt and regular service to the consumers.



CHAPTER TWENTYONE

Dealer's/Agents' Commission on Kerosene

21.1 The distribution of kerosene oil in all parts of the country is arranged by the oil companies through their agents/dealers appointed mostly in terms of formal agreements concluded with them, except in the case of IOC and AOC, who have appointed their agents/dealers without entering into formal contracts. In regard to the rate of commission and its revision, the terms of the formal agreements, wherever concluded, differ from company to company. The oil companies also offer diverse types of facilities to their agents/dealers; such as credit on supplies, loans for purchasing lorries, provision of storage facilities and distribution equipment etc. Some oil companies also recover at certain locations licence fees for the use of such facilities, the quantum of which depends upon the land rental and/or lease amount, taxes payable by the company and maintenance/repair expenses of facilities. These are usually recorded as a reduction in the distribution expenses of the company.

21.2 The current rate of commission of Rs. 7.70 per kilolitre came into force on the 1st April, 1960, upon introduction of the metric system of weights and measures. This rate is uniformly followed by all the oil companies and is equivalent to 28 paise per unit of 8 Imperial gallons in force earlier. This represented about 3 per cent of the cost of product to the agents/dealers at that time, and on current rates, it is nearly 2 per cent of their cost. The agents/dealers have asked for an increase in the rate of commission on this ground that their operational costs have gone up in terms of working capital requirements resulting directly from the increase in product prices.

21.3 There appears to be no mention in the formal and informal arrangements concluded by the oil companies with the agents/dealers of the specific items, which should be deemed to be covered by the commission, but, the common understanding is that it is intended to include the agents/dealers' profit, interest on investment and other overheads. There is no organised body of agents/dealers, which could be usefully consulted in the matter. Enquiries made from the State Governments etc. show that, depending upon the local conditions of the area and the situation obtaining from time to time, the local authorities also permit inclusion by the agents/dealers in their selling prices of other incidental expenses, viz., transportation charges, allowance for leakage, storage, loading/unloading expenses, handling cost, measuring expenses, establishment charges, godown rent, depreciation on barrels and other equipment, sales tax and other local levies and one State admits even interest on investment. Not all the items enumerated are allowed but any one or more of them have usually been conceded by the State Governments in consultation with the representatives of the oil companies and the agents/dealers. In some areas of Andhra Pradesh and in Orissa even profits ranging from 2 per cent to 6 per cent are allowed to the whole-sale dealers of kerosene in addition to the fixed commission. The admissibility and the quantum of each item of expense is determined by the local authorities depending upon the local conditions in each area.

21.4 The present system of allowing the selling prices of kerosene to the agents/dealers including the commission and retailers to be determined by the State Governments provides a measure of flexibility, since it takes into account the local conditions under which whole-sale and retail traders operate in each area. A uniform framework of kerosene prices at the agents/dealers or retailers stage would be too rigid and give rise to many practical difficulties. It has been observed by a State Government that wherever the supply position is comfortable, wholesale and retail sales are made at levels below the 'Declared' prices fixed by the local authorities. A number of State Government (e.g., West Bengal, Maharashtra, Gujarat, Mysore, Kerala, Haryana, Tripura, Goa, Daman and Diu) also consider the existing rate of commission adequate having regard to the reimbursement of incidental expenses and other allowances authorized by the local authorities. The wholesale and retail selling of kerosene is mostly combined with other business so that it is impossible to segregate the capital and labour utilised for trading in kerosene from those employed in the collateral operations. Kerosene is an item of mass consumption in rural areas and is an essential article for the poorer sections in urban areas. Any increase in the burden on these sections on account of a higher rate of commission for kerosene dealers will need substantial justification. Although the rate of commission as a percentage of cost has gone down over the years, the total sale of kerosene has increased from 1.8 million tonnes in 1959 to 2.8 million tonnes in 1968. A growth rate of about 6 per cent is anticipated for the future. The dealers, therefore, can look forward to an increase in their turnover and consequent increase in their income without an increase in the rate of commission. We accordingly recommended that the existing rate of commission, viz., Rs. 7.70 per kl. may be maintained for the future, subject to the local authorities allowing reimbursement of any extraordinary expenditure which the dealers may have to incur under local conditions.

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Current Ceiling Prices as on the 28th June, 1969

The current ceiling prices as on the 28th June, 1969, excluding surcharge for AFRA variation, applied from the 1st May, 1968, and referred to in paragraph 2.7 and also excluding the WGOP (non-recoverable) duties at 29.5°C and dealers' commission on motor spriti 93 and 79 octane and high speed diesel oil are shown in the table below, with the ceiling rates in force in regard to marketing and distribution charges and profit for lubricants and greases :—

Current ceiling Prices as on 28.6.69 Excluding Surcharge for AFRA variation, WGOP non-recoverable duty at 29.8°C and Dealers commission in case of Motor Spirit (93 octane and 79 octane) and HSD

Rs./Unit

PRODUCT	Unit	Kandla	Okla	Bombay	Mormugao	Cochin	Madras	Vizag	Calcutta
1	2	3	4	5	6	7	8	9	10
1. Aviation Spirit 100/130									
Ex. Storage point	933.34	928.06	..	949.98	959.56
Ex. International air field	971.62	..	..	988.26	997.84
Ex. Other Airfields	989.12	983.84	..	1005.76	1015.34
2. Aviation Spirit 115/145									
Ex. Storage point	930.14	924.96	..	946.97	956.05
Ex. International Airfield	968.42	..	..	985.25	994.33
Ex. Other Airfields	985.92	980.74	..	1002.75	1011.83
3. Aviation Spirit 73 Oct.									
Ex. Storage point	894.33	..	890.83	901.18	916.40
Ex. International Airfield	932.61	..	929.11	939.46	954.68
Ex. Other Airfield	950.11	..	946.61	956.96	972.18

	1	2	3	4	5	6	7	8	9	10
4. Aviation Turbine Fuel										
Ex. Storage point		KL	397.56	402.71	400.08	399.94	..	419.44	..	418.27
Ex. International Air field		"	422.00	427.15	424.52	..	..	443.88	..	442.71
Ex. Other Airfield		"	439.50	444.65	442.02	441.88	..	461.38	..	460.21
5. Motor Spirit 93 Oct.										
Ex. Storage point		KL	855.97	..	854.88	..	..	867.02	861.13	875.06
Ex. Port local pumps		"	868.75	..	867.66	..	..	879.80	873.91	887.84
Up country pumps		"	882.50	..	881.41	..	..	893.55	887.66	901.59
6. Motor Spirit 79 Oct.										
Ex. Port local pumps		KL	835.16	837.01	833.83	830.94	834.45	846.11	840.23	853.38
Ex. Up country pumps		"	848.91	850.76	847.58	844.69	848.20	859.86	853.98	867.13
7. High speed diesel oil										
Ex. Storage point		KL	656.68	659.37	655.77	657.82	658.47	670.32	664.41	670.14
Ex. pumps		"	663.28	665.97	662.37	664.42	665.07	676.92	671.01	678.94
8. Kerosene Superior										
Ex. Storage point		KL	430.77	431.66	429.03	428.21	429.48	440.59	437.44	445.32
9. Kerosene Inferior ex-storage point		"	224.17	..	221.32	225.51	226.68	236.43	232.99	241.85
10. Vaporising oil ex-storage point		"	683.45	..	682.60	684.06	..	704.09	..	703.19
11. Light Diesel Oil ex-storage point		"	263.59	265.69	267.19	266.27	267.62	284.51	275.62	285.67
12. Furnace Oil ex-storage point		"	151.68	152.74	152.02	150.19	151.66	172.14	165.76	172.49
13. Bitumen-Straight ex-storage point		MT	312.10	312.18	336.80	311.87	338.13	346.18	343.09	354.10
14. Bitumen-Cut Back-BS ex-storage point		"	408.37	408.45	416.58	408.11	407.97	410.22	412.19	423.73
15. Bitumen-Cut Back-RC ex-storage point		"	408.37	408.45	416.58	408.11	407.97	410.22	412.19	423.73
16. Lubes & Greases ex-storage point		KL				94.36				

CHAPTER TWENTYTHREE

Recommended Ceiling Prices

23.1 The detailed break-up of the ceiling prices recommended by the us for bulk refined products and bitumens at the oil companies' storage points at the main eight ports, with f.o.bs. as on the 28th May, 1969, and marine freight as applicable for June, 1969, are shown in Statements Nos. 1-14 and a summary thereof is given in the table (See page no. 100 & 101 for the table) alongwith the ceiling limits for marketing and distribution charges and profit for lubricants and greases.

23.2 The recommended ceiling prices for each of the ports for the various bulk refined products and bitumens are applicable as under :—

- (i) Aviation gasolines and aviation turbine fuel. Ex-oil companies' storage points and ex-airfield outlets.
- (ii) Motor spirit and high speed diesel oil. Ex-oil companies' storage points and ex-retail pump outlets.
- (iii) Other products Ex-oil companies' storage points.

23.3 Over and above the recommended ceiling prices, the following further charges will also be recoverable :—

- (a) Railway freight :

For bulk refined products and bitumens at the bulk tariff rate applicable from time to time for despatches by rail by the most economical route from the nearest main port installation from which supplies are normally made and/or from the nearest inland refinery, which is also recommended to be the pricing point in future.

In respect of deliveries in packed containers, such railway freight will be recoverable at the packed tariff rates in force from time to time.

- (b) Local duties and taxes :

Sales tax, local taxes/duties, octroi, etc. at the rate and quantum applicable from time to time at the place of sale.

- (c) Specific delivery charges :

- (i) For effecting deliveries of motor spirit and high speed diesel oil beyond the 'free delivery zone'. At actual rates.
- (ii) For effecting deliveries of aviation gasolines and aviation turbine fuel beyond the companies' storage points or beyond the airfield outlets. At actual rates.

Recommended selling prices (exclusive of Non-recoverable Duties, and Dealers Retail Commission in case of Motor Spirit 93 Octane and 79 Octane and High Speed Diesel Oil) Ex-Companies' Storage Point etc. for refined Products with
FOB as on 28th May, 1969.

(Rupees per Unit)

Product	Unit	Kandla	Okha	Bombay	Marmagao	Cochin	Madras	Vizag	Calcutta
1. Aviation Spirit 100/130									
Ex-Storage Point	KL	991.74	989.84	992.42	987.51	989.49	1001.27	993.85	1015.30
Ex-International Airfield	"	1036.34	1034.44	1037.02	1032.11	1034.09	1045.87	1038.45	1059.90
Ex-Other Airfield	"	1053.84	1051.94	1054.52	1049.61	1051.59	1063.37	1055.95	1077.40
2. Aviation Spirit 115/145									
Ex-Storage point	KL	1016.06	1014.16	1016.58	1011.76	1013.81	1025.48	1018.08	1039.02
Ex-International Airfield	"	1060.66	1058.76	1061.18	1056.36	1058.41	1070.08	1062.68	1083.62
Ex-Other Airfield	"	1078.16	1076.26	1078.68	1073.86	1075.91	1087.58	1080.18	1101.12
3. Aviation Spirit 73									
Ex-Storage Point	KL	952.61	950.71	953.22	948.34	950.36	962.11	954.69	975.93
Ex-International	"	997.21	995.31	997.82	992.94	994.96	1006.71	999.29	1020.53
Ex-Other Airfield	"	1014.71	1012.81	1015.32	1010.44	1012.46	1024.21	1016.79	1038.03
4. Aviation Turbine Fuel									
Ex-Storage Point	KL	428.12	429.45	428.17	426.88	427.60	439.46	432.89	439.65
Ex-International Airfield	"	448.22	449.55	448.27	446.98	447.70	459.56	452.99	459.75
Ex-Other Airfield	"	465.72	467.05	465.77	464.48	465.20	477.06	470.49	477.25
5. Motor Spirit 93 Oct.									
Ex-Storage Point	KL	858.91	857.00	859.77	854.74	856.65	868.56	861.13	883.23
Ex-port local pumps and Ex-up country pumps	"	870.27	868.36	871.13	866.10	868.01	879.92	872.49	894.59
6. Motor Spirit 79 Octa									
Ex-port local pumps and Ex-up country pumps	KL	828.18	826.27	828.81	823.92	825.93	837.67	830.26	851.59

7. High Speed Diesel Oil												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
Ex-pumps	.	.	.	.	.	.	.	.	.	.	.	.
8. Kerosene Superior												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
9. Kerosene Inferior												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
10. Vaporising Oil												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
11. Light Diesel Oil												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
12. Furnace Oil												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
13. Bitumen-Straight Gr.												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
14. Bitumen—CB,BS												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
15. Bitumen—CB/RC												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.
16. Lubes & Greases												
Ex-Storage Point	.	.	.	.	.	.	.	.	.	.	.	.

Sales negligible : Selling Price not estimated

NOTE : (i) To the above prices for Motor Spirit and High Speed Diesel Oil, Dealers' Retail Commission will be added as recommended in paragraph 20-13.

(ii) The commission to agents in respect of light diesel oil and kerosenes will be as in paragraphs 11-3-13 and 21-4, respectively.

(iii) A differential of Rs. 3-60 per tin will be chargeable for delivery of bulk refined products in 18-5 litre tins.

- (iii) For effecting deliveries of products other than those at (i) & (ii) beyond the companies' storage points. At actual rates.

(d) Returnable package charges : At current rates.

23.4 The ceiling prices recommended by us are exclusive of the non-recoverable duties which Government may impose. It will be observed that the ceiling prices vary from port to port. Consequently the difference between the recommended ceiling prices and the current ceiling prices at different ports also varies. In the past the Government followed the procedure of keeping the current prices unchanged, and imposing at uniform rate non-recoverable duties on sales at all ports on the basis of the average of the differences between the current prices and the recommended prices. This had the consequence that after payment of the non-recoverable duty, the netback to the oil companies on their sales at different ports left them with an excess over the recommended prices at some ports and deficit at others. Such excesses or deficits might have tendency of inducing larger flow of supplies to areas where the companies stood to earn an excess over recommended prices and restricted flow of supplies to areas where they incurred a deficit. To avoid such probable distortions in the distribution of products, we would recommend that instead of maintaining the current prices at different ports unchanged, the Government should notify the prices arrived at by (a) first adding to the recommended ceiling prices the all India average of the differences between the current ceiling prices (excluding the surcharge applied with effect from the 1st May, 1968, and referred to in paragraph 2.7 and the existing non-recoverable duties) and the recommended prices, and then (b) adding the present element of non-recoverable duties, vide Statement No. 16. If this is done, the suppliers will have nothing to gain by diverting supplies from one port to another because at any port their realization, after payment of the non-recoverable duty, will not be higher than the price recommended by us for that port.

CHAPTER TWENTYFOUR

Comparison of the Current and Recommended Ceiling Prices

24.1 The differences between the current ceiling prices shown in Chapter 22 and the recommended ceiling prices shown in Chapter 23 are given in the table below in respect of bulk refined products and bitumens. Naphtha has not been included, because at present although a formula has been laid down for determining the ceiling price for naphtha, no port-wise ceiling prices have been notified.

24.2 The four major oil companies have furnished data on the pattern of sales of petroleum products through different ports for the proposed pricing period 1970 to 1972 based on their current experience and other factors. We have assumed this pattern of sale for calculation of anticipated surplus with the industry consequent on adoption of ceiling prices recommended by us.

24.3 The reduction in the aggregate annual gross receipts of the four major oil companies from various products excluding naphtha resulting from the difference between the recommended ceiling prices and the current ceiling prices is estimated at Rs. 192.783 million as shown below :—

Product	Unit	Volume million	Amount Rs./million	Average per unit at normal temperature (Rs.)
Aviation spirit—				
100/130	Kl.	0.052 (+)	3.224 (+)	62.00
115/145	"	0.014 (+)	1.255 (+)	89.64
73 clear	"	0.004 (+)	0.259 (+)	64.75
Aviation turbine fuel	"	0.931 (+)	21.398 (+)	22.98
Motor spirit—79 Octane	"	2.074 (—)	33.293 (—)	16.05
Motor spirit—93 Octane	"	0.012 (—)	0.037 (—)	3.08
High speed diesel oil	"	5.590 (—)	81.699 (—)	14.62
Kerosene—Superior	"	3.785 (—)	45.575 (—)	12.04
Kerosene—Inferior	"	0.095 (—)	1.323 (—)	13.93
Light diesel oil	"	1.167 (—)	16.821 (—)	14.41
Furnace oil	"	3.850 (—)	37.573 (—)	9.76
Bitumen				
—Straight Grade	MT	0.701 (—)	11.109 (—)	15.85
—Cutback/BS	"	0.021 (—)	0.835 (—)	39.76
—Cutback/RC	"	0.043 (—)	1.142 (—)	26.56
Lubricants and Greases	Kl	0.785 (+)	10.488 (+)	13.36
			(—) 192.783	

Differences between the recommended ceiling prices and the current ceiling prices

		Rs./Unit						
Product	Unit	Kandla	Okha	Bombay	Marmugao	Cochin	Madras	Vizag Calcutta
1. Aviation Spirit 100/130								
Ex-Storage Point	.	61.52	..	59.08	59.45	..	51.29	.. 55.74
Ex-International Airfield	.	67.84	..	65.40	..	..	57.61	.. 62.06
Ex-Other Airfield	.	67.84	..	65.40	65.77	..	57.61	.. 62.06
2. Aviation Spirit 115/145								
Ex-Storage Point	86.44	86.80	..	78.51	.. 82.97
Ex-International Airfield	92.76	..	..	84.83	.. 89.29
Ex-Other Airfield	92.76	93.12	..	84.83	.. 89.29
3. Aviation Spirit 73								
Ex-Storage Point	.	59.58	..	58.89	..	59.53	60.93	60.90 59.53
Ex-International Airfield	.	65.90	..	65.21	..	65.85	67.25	67.22 65.85
Ex-Other Airfield	.	65.90	..	65.21	..	65.85	67.25	67.22 65.85
4. Aviation Turbine Fuel								
Ex-Storage Point	.	30.56	26.74	28.09	26.94	..	20.02	.. 21.38
Ex-International Airfield	.	26.22	22.40	23.75	..	..	15.68	.. 17.04
Ex-Other Airfield	.	26.22	22.40	23.75	22.60	..	15.68	.. 17.04
5. Motor Spirit 93 Oct.								
Ex-Storage point	.	2.94	..	4.89	..	..	1.54	.. 8.17
Ex-port local pumps	.	1.32	..	3.47	..	..	0.12	.. (1.42) 6.75
Ex-up country pumps	.	(12.23)	..	(10.28)	..	..	(13.63)	.. (15.17) (7.00)
6. Motor Spirit 79 Oct.								
Ex-port local pumps	.	(6.98)	(10.74)	(5.02)	(7.02)	(8.52)	(8.44)	(9.97) (1.79)
Ex-up country pumps	.	(20.73)	(24.49)	(18.77)	(20.77)	(22.27)	(22.19)	(23.72) (15.54)

CHAPTER TWENTYFIVE

Period of Price Fixation and Provision for Adjustments

25.1 It has been suggested that the prices fixed after the present inquiry should be subject to adjustment for increases in marketing/distribution charges and that an adequate provision should be made for unforeseen contingencies. We do not consider it necessary to make any such provision since prices of petroleum products have already been reviewed twice during this decade after a full scale enquiry on each occasion and this is the third review of a more or less similar nature. In view of the comparatively frequent intervals at which the position has hitherto been reviewed, we do not consider it necessary to provide for any adjustment on account of increases in marketing and distribution charges before the next review or to include an allowance for contingencies in the prices recommended by us.

25.2 In 1968, the total refining capacity was of the order of 16 million tonnes. To meet the growing demand, the refining capacity will have to increase from about 20 million tonnes in 1970 to over 25 million tonnes in 1972, the latest estimate for 1975 being 35 million tonnes. The increase in the refining capacity may be achieved by expansion of the existing refineries in the private sector, the commissioning of the Haldia refinery in 1971 and later in 1974, by a new refinery in north-western India. The pattern of crude supply is likely to be influenced by the availability of supply from the new field developed off-shore Iran, in which the Government has a share and the price applicable thereto. In view of these developments, particularly the increase in the participation by the public sector both in refining and marketing, we feel that the basic principles adopted in this report for determination of prices may call for reconsideration in about three years. We, therefore, recommend that the price structure proposed by us should remain valid for three years from the date of its implementation. It should, however, be subject to adjustments for the undermentioned factors :—

- (i) There should be an increase/decrease by 4 per cent in the posted f.o.b. cost of products ex-Bandar Mah-Shahr adopted by us in para 11.3.1 for every 10 cents increase/decrease in the net f.o.b. cost of light Iranian (Aghajari) crude (34—34.9 API) as compared with the net f.o.b. cost of \$1.28 per barrel adopted by us even if crudes other than Aghajari are processed in part or in whole by the refineries.
- (ii) Fluctuations in AFRA rates as compared with those prevailing in June, 1969, but adjustment on this account should be limited to the total increase/decrease in the freight incurred on crude imports (and on indigenous crude if priced on import parity). The AFRA index in June, 1969, for MR vessels (25,000/44,999 SDW) was (—) 29.4 and LR (I) vessels (45,000/79,999 SDW) was (—) 37.9. Refineries processing their own crude, e.g., AOC should be entitled to adjustment only to the extent of the increase/decrease in the calculated cost of crude, as accepted by Government for this purpose.

- (iii) Variations in marine insurance (other than war risk) from 0.055 per cent on f.o.b. at the rates charged by Indian insurers.
- (iv) Variations in the rates of basic excise/import duties prevalent on the 30th August, 1969.
- (v) Variations in the rates of wharfage, with the proviso that the adjustment will be limited to the incidence of such charges on crude imports and indigenous crude if priced on import parity. In respect of AOC the procedure as at (ii) will apply.
- (vi) Variations in the average all-India cost of tin plate to IOC over Rs. 2,663 per tonne for a consumption of 1.15 kg. per tin on which the packed/bulk differential for 18.5 litre tins is based.
- (vii) Variations in the delivered price of drum sheets to Burmah-Shell refinery over Rs. 1,486 per tonne of 24 G drum sheets for a consumption of 63.2 kg. per tonne of bitumen st. grade and Rs. 1,428 per tonne of 21 G drum sheets for a consumption of 90.3 kg. per tonne of bitumen cutbacks.

25.3 Regarding the provisos at (ii) and (v), it may be added that import parity would be a fair standard for determination of prices only if it is not inflated by taking into account casual or short term fluctuations in freights, etc. which do not affect domestic cost of production. We accordingly recommend that adjustments in import parity should be allowed only to the extent that variations in marine freight and wharfage affect the cost of crude. However, variations in freight due to AFRA index and in statutory wharfage may be allowed to be recovered in the case of deficit products to the extent of actuals. Similarly refineries moving products by coast to Indian ports should also be entitled to recover the actual increases in cost due to variations in wharfage. For this purpose a pooling arrangement may be made similar to the one recommended by us to compensate the oil companies for their freight under-recoveries.

25.4 Incidentally, in our view the increase mentioned in para 2.8 in the basic ceiling selling prices of bulk refined products and bitumens authorized with effect from the 1st May, 1968, on account of the increase in marine freight following the closure of the Suez Canal should be limited to the actual increase in cost of crude to the refineries; otherwise the companies will make a gain which is not warranted by their costs.

CHAPTER TWENTY SIX

Additional (Non-Recoverable) Duties to be Borne by the Refineries.

As stated in para 2·4, these duties were levied on the refineries to mop up the adventitious gain to them, as a result of devaluation of the rupee and subsequently revised in the light of devaluation of the Pound Sterling. The rates at present applicable will call for revision in the light of the Government's decision on the recommendations in this report. This will require collection of data concerning the anticipated production pattern of the individual refineries for the period 1970 to 1972. We propose, in the meantime, the existing rates of additional (non-recoverable) duties levied on the refineries may be continued and the over/under recoveries calculated on the basis of the new prices recommended by us may be taken into account in the computation for the years 1970 to 1972.



CHAPTER TWENTYSEVEN

Some Ancillary Issues

27.1 Coastal Freight Paid to Foreign Flag Vessels :

The coastal movement of products takes place partly in Indian and partly in foreign flag vessels. The volume of movement involved and the marine freight paid in foreign exchange in the last two years is given below :—

	Quantity moved by coast in foreign flag tankers		Freight paid in foreign exchange	
	1967 '000 tonne	1968 '000 tonne	1967 '000 Rs.	1968 '000 Rs.
Burmah-Shell	1,188	1,250	21,680	21,022
Esso	533	546	7,887	8,845
Caltex	260	247	3,590	3,456
IOC	341	484	7,837	9,551
	2,322	2,527	40,994	42,874

We wish to draw attention to the above data and suggest that Government may take suitable action to reduce foreign exchange expenditure on this account.

27.2. Differential toll at Paharpur (Calcutta) :

The consignments landed at K. G. Docks in Calcutta for discharge into tankage at Paharpur are liable to a differential toll levied by the Calcutta Port Commission at Rs. 5.00 per tonne, whereas no such levy is made on supplies discharged into tankage at Budge Budge. Burmah-Shell and Esso have their tankage facilities at Budge Budge whereas those of IOC and Caltex are at Paharpur. This toll is not taken into account in the determination of the import parity prices at Calcutta as it does not apply to all supplies coming into Calcutta by sea. Caltex and IOC have represented for recoupment of the under-recovery on this account. We have not provided for such recoupment, as in our view it would not be reasonable to provide for compensation for the locational disadvantage of each installation. We have also not gone into the countervailing advantages, if any, of locating the installations at Paharpur instead of at Budge Budge.

27.3 Dispute regarding prices payable by IOC to CRL at the battery limits of the refinery.

In the scheme of distribution of CRL products, supplies are moved either by tank trucks or tankwagons to their destinations or through pipeline to the marketing companies' installations at Cochin. According

to CRL, IOC thereby avails of the facility of the former's pipeline and/o the railway siding, which should be duly paid for but IOC is not agreeable to such payment. The railway siding is said to have been provided by CRL at the special request of the Government of India, for which recovery at the rate of Rs. 2.50 per ton has been authorized. This has not actually been paid by IOC. The dispute with IOC on these points was referred to us by CRL. It is a problem of a local nature. The use of the railway siding is already regulated by Government instructions on the subject. We consider this to be a matter either for settlement mutually between CRL and IOC or adjudication by the Government which has interest in both the companies.

27.4 Exports of Surplus Products :

27.4.1 The surplus arising at the refineries as a residual stream, after meeting the requirements of the domestic market, is exported. Such exports are normally in the form of semi-finished products, e.g., straight run tops/naphtha, cat cracked gasoline, platformate, or of finished products, like furnace oil, motor spirit 79 and 95 octanes, asphalt, wax, etc. The total exports of all the companies during the last two years were as follows :

Year						Total quantity in million tonne	Total value in million US\$
1967	.	.	.	.	.	0.98	17.79
1968	.	.	.	.	.	0.55	10.87

The suppliers of crude oil to the private refineries, and Phillips in the case of the Cochin refinery, have the right and the obligation to take over the surplus products for export at the best prices obtainable in the world market. Exports are arranged by the individual companies which can also utilise the services of the State Trading Corporation of India to obtain better terms. It has been represented to us that the Indian exporters are handicapped in several respects in the matter of obtaining the best possible prices for their exports. The quantities available for export as well as the specifications of the products are subject to wide fluctuations. In some cases export contracts have to be concluded to prevent heavy accumulation of stocks and consequent disruption of refinery operations. At the same time, it is not possible to enter into long term contracts for large quantities. Consequently, a company often receives export prices which may be the maximum obtainable in the circumstances of the particular contracts but are not competitive with the price paid by the foreign buyer for his import from alternative sources. According to Esso, "due to the limitation of parcel size, exports from Bombay do not enjoy super tanker freight rates applicable to exports from the Persian Gulf". This results in the lowering of the netback to the refineries due to higher freight payments.

27.4.2 Thus, the present situation is highly unsatisfactory from the point of view of securing the best prices for our exports. There is no evidence of any planning of export surpluses for a future period or of the

freight arrangements required. No watch is maintained over export prices, though the need for this is obvious since the exports are routed through associated companies. The companies in India depend entirely on their associates abroad having no arrangements of their own to watch world prices. We recommend that the State Trading Corporation should equip itself to handle the exports of surplus petroleum products so that with better planning and improved arrangements for intelligence, we may secure better prices than at present.

27.4.3 Wax is the only product of the Digboi refinery which is exported. Burmah-Shell handles these exports at Calcutta. There are no posted prices for wax and the price obtained in each market is said to be the best price possible under the ruling competitive conditions. In addition, the Assam Oil Company has at its disposal their associate's information regarding the prices available throughout the world. In 1968, the total exports of wax were 2949 tonnes and the total amount realised was Rs. 2.8 million. We have not been able to examine whether the prices realised for wax were the best available in the export market and would recommend that the arrangements recommended by us for watching the world prices of other surplus petroleum products should cover wax also.

27.5 Insurance with Indian Parties :

Marine insurance of POL consignments is undertaken by IOC and Esso with Indian parties. In 1968, Burmah-Shell insured approximately 17-18 per cent of their crude oil and product imports through Indian parties. They proposed to increase this percentage to 25 per cent in 1969. Caltex is agreeable to switch over to Indian insurance subject to certain conditions which are under discussion with Government.

27.6 Prevention of burning of olefins by refineries :

It has been brought to our notice by the Planning Group for Petrochemicals that certain refineries burn up olefins, which are vital raw material for the manufacture of petro-chemicals and are in extremely short supply. The quantities which can be obtained from certain refineries are believed to be sizeable and also adequate to meet the present requirements of the petro-chemical industry. We recommend that special action should be taken by Government to prevent the burning of olefins by refineries except where they are satisfied that separation of this material from the refinery gas is not feasible for any reason.

27.7 Remittances towards share of overseas Office expenses and other services.

Year	Rs./million				
	Esso	Burmah-Shell	Caltex	AOC/BOC (IT)	IBPC
1965	3.82	5.40	0.26	2.40	0.203
1966	5.02	6.31	0.26	2.85	0.317
1967	6.16	4.88	0.42	2.26	0.135
1968	4.78	3.92	0.90	1.90	0.135

These remittances are said to cover engineering and technical information services rendered by the principals abroad, royalties and licence fees payable to them and also the share of office expenses in London and New York allocated to the Indian operations. In respect of Burmah-Shell, Esso and Caltex refineries provisions for such payments is contained in the agreements relating to the establishment of the refineries. Payment by other companies and by the marketing companies of their share of overseas office expenses is being allowed as a matter of long-standing practice. Since the refinery operations in India have now been stabilised for more than a decade, imports of the major deficit products through private companies have been eliminated and good research facilities have been developed at the Indian Institute of Petroleum. Government should review the basis on which oil companies are being allowed to make remittances to their principals, with a view to reducing such remittances and over a period eliminating them altogether.

27.8 Suggestions of the oil companies for improvement of the existing system regarding levy and collection of duties, rail and road transportation of products and comments thereon of the Ministries concerned.

27.8.1 Levy and Collection of duty

(i) Extension of the facilities for inbound movement and storage of petroleum products to some additional stations.

This request of the oil industry involves deferment of the recovery of duty. It is said to have been examined more than once in the past and found unacceptable. The scheme of Central Excise levies stipulates recovery of duty at the time of clearance of goods from the manufacturers and it is only in the case of a few of the excisable goods that the manufacturers have been allowed the facility of postponing payment of duty to the point of clearance from the distribution centres. The Ministry of Finance considers that the petroleum industry already enjoys the maximum benefit in regard to inbound movement and storage and there is, therefore, no case for further extension of these facilities.

(ii) General Bond to cover removal of petroleum products from one warehouse to another.

Provision already exists for such a bond. If, however, any particular licensee is experiencing any difficulty in this regard, he may take up the matter with the Ministry of Finance through the local Central Excise officers concerned.

(iii) Settling time for taking dip-reading of storage tanks.

In the matter of discharge operations discretion has already been vested in the Collectors to reduce the settling time upto half an hour in emergent cases. The question of evolving and prescribing certain guidelines for reducing the settling time in the case of receipt operations is under examination by Government.

(iv) Deputation of Central Excise Officers from the local offices rather than from the Central Office for purposes of attendance on filling of tank wagons/trucks or for verification of railway receipts, consignment notes etc.

In the normal course there should be no objection to the local officers stationed at terminal port/installations attending to different work requirements of the oil companies. However, if any difficulty is being experienced in any particular case, the oil companies should bring it to the notice of the Ministry of Finance.

(v) Availability of Central Excise officers round the clock.

It is understood that Central Excise officers are normally made available for attending to work from 6 AM to 6 PM without charging any overtime. Provision for attendance beyond these hours as also on Sundays/Holidays on overtime also exists. Self removal Procedure under which the assessee themselves can clear excisable goods without excise supervision is likely to be extended shortly to several commodities including petroleum products when the problems referred to herein will cease to exist.

(vi) Transit losses and recovery of duty on excess losses.

Whenever petroleum products move inbond from the refineries/bonded marketing installations to bonded warehouses, losses upto reasonable limits to cover evaporation and unavoidable spillage/wastage etc. are already admissible. Provision also exists for excessive losses occasioned by accidents being condoned. The various limits indicated for condonation of losses are only in the nature of guide-lines and the collectors are fully competent to allow higher losses, on merits, where the circumstances so warrant. Wherever the actual loss exceeds the reasonable limit, duty becomes chargeable only on the losses in excess of the limit and not on the entire loss unless there is adequate suspicion of pilferage. If in any case duty has been recovered on the entire loss, the oil company concerned may well take up the matter through appeal/revision application procedure.

In the case of movement of petroleum products (particularly raw naphtha) on payment of duty at the concessional rate for specified industrial purposes, losses during transit upto reasonable limits are condoned. Where, however, the losses happen to be more than those considered to be reasonable, duty becomes recoverable at the full rate. Since the quantities involved pay, at the time of their clearance from the refineries/bonded marketing installations, duty at the concessional rate (5 per cent ad valorem), the excessive losses are rendered liable to pay differential duty.

(vii) Permission for showing different destinations and consignees in the same A.R.-3 Form

It was on account of the various difficulties experienced that the earlier practice of different destinations and consignees being shown in the same AR-3 was discontinued and instead the requirement of only one destination and one consignee being shown on a particular AR-3 was enforced. In view of this, the existing practice calls for no change. To mitigate the hardship of the oil companies, however, instructions for permitting diversion of a consignment covered by a particular AR-3 from one consignee to another at the same port or even from one port to another have been issued.

(viii) Enhancement of Central Excise duty should not be made retrospectively.

Unless there are special circumstances, the rate of Central Excise duty is never enhanced retrospectively.

(ix) *Delays in clearance by Customs of packed consignments pending tests and delays in final assessment of customs duty-based on test results.*

It is understood that to avoid demurrage, petroleum products are released provisionally pending finalisation of tests. Section 18(1) of the Customs Act, 1962, provides for provisional assessment in cases where goods are required to be subjected to chemical tests etc., subject to the importer furnishing a suitable security for payment of the deficiency between the provisional and the final assessment. In case of disputes/adjudication, goods are liberally allowed to be cleared against suitable bonds. Detention certificates are usually granted to enable the importers to get demurrage charges waived by the Port Trusts for the period between the drawing of samples and the final assessment of the bill of entry. The oil companies may make use of these facilities.

27.8.2 Road Movements

(i) *Removal of restrictive weight limitations and use of trailers and improvement of roads/bridges to permit use of higher payload vehicles.*

It is understood that necessary instructions in this matter have already been issued by the Ministry of Shipping and Transport but progress in improvement of roads and bridges is hampered by shortage of resources.

(ii) *Period of validity of fitness certificate of vehicles.*

An amendment to Section 38 of the Motor Vehicles Act is being made to make it obligatory on the prescribed authority to grant fitness certificate for a period of at least one year in the case of new vehicles which are not plying in hilly areas.

(iii) *Removal of restrictions on inter-State movement of vehicles.*

This question was reported to have been considered by the Inter-State Transport Commissioners in September, 1963. Accordingly, the oil companies were advised in September, 1963, to get their vehicles registered or to obtain fresh registration numbers for them in the different States to achieve parity to a reasonable extent in regard to the number of registrations in each State. At the suggestion of the Transport Development Council, the desirability of relaxing the limit of 300 miles on transportation of petroleum products by road was examined in consultation with the Ministry of Railways but was not approved.

(iv) *Automatic acceptance of calibration certificate issued by one State authority by the other.*

It is understood that this suggestion has not found favour with some State Governments.

(v) *Uniform basis of road tax in all States, reduction of the rate and use of certain portion thereof for improvement of roads.*

Since taxation is a State subject, an all India or a uniform rate in all States, cannot be adopted. Reduction in the existing level of taxation is also not practicable on account of the need for development funds. However, a higher portion of the revenue from road transport is being spent on roads.

27.8.3 Rail Transportation

(i) Existing fleet of tankwagons being inadequate manufacture of new ones should be increased and larger capacity tankwagons should be introduced.

The requirement of tankwagons is carefully assessed by the Railway Board in consultation with the Ministry of Petroleum & Chemicals and the industry. During the last five years about 5,000 new tankwagons have been added to the B.G. fleet. The present M.G. fleet is adequate to meet the demand in the next five years. The manufacturing capacity for tankwagons and the existing rate of out-turn are considered adequate. The oil companies' estimate of requirements of tankwagons is considered by the Railway Board to be very much on the high side. They have noted the suggestion to introduce larger capacity tankwagons.

(ii) Maximum use of tankwagons and railway carrying capacity to be made by booking only to stations where tankage exists and also by reducing the turn-round time of tankwagons by despatches of larger number of block rates on a directional movement basis and the elimination of delays/detentions at marshalling yards and termini.

The Railway Board has stated that this is already being done.

(iii) Reduction in repair time of sick tankwagons.

This is reported to be kept under constant review by the Railway Board and every endeavour is made to keep the percentage of ineffectives within 4 per cent of the total fleet.

(iv) Increase of loading and unloading time to seven from the existing five day-light hours due to increase in minimum tankwagon capacity from 32 to 41 kiloliters.

This is not considered necessary by the Railway Board due to availability of power operated high capacity pumps for loading and unloading.

The following further points raised by the oil companies are reported to be under consideration of the Railway Board :

- (a) Uniform densities are followed for purposes of charging rail freight by all railways except Eastern and N.F. Railway. The densities adopted by the two Railways are heavier than those adopted by other Railways. The freight per kilolitre of oil is more than the freight on other Railways. Moreover, when tankwagons of these two Railways ply on other Railways under recoveries of freight are increased because of the higher densities used by them.
- (b) Notwithstanding the increase in freight on the plea that the Railways would carry goods at Railway risk and not owner's risk, the Railways do not issue clear Railway receipts for goods loaded at private sidings. Consequently it is impossible to successfully claim for genuine shortages in transit.

- (c) No more wagons are reported to be manufactured by the Railways for carriage of liquified petroleum gas but under-frames only are provided for mounting pressure vessels fabricated and owned by the oil companies. In view of the substantial amounts of investment required for fabricating pressure vessels, concessional freight may be allowed for transportation of LPG in such vessels as compared with freight charged for movement in wagons owned by the Railways.
- (d) Railway personnel should be made available at bulk loading points at Digboi and Tinsukia free of cost.



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CHAPTER TWENTY EIGHT

Suggestions on some Major Policy Aspects

28.1 An independent agency recommending prices for a controlled commodity is normally expected to do so after examining the major elements in the cost of production and the relevant aspects of the domestic and world supply, demand and price situation. We wish to point out, however, that our examination has perforce been far from comprehensive, partly because indigenous crude which now accounts for 40 per cent of the total crude consumed in country was excluded from our terms of reference, and partly because a commitment made by Government with some of the foreign oil companies to allow the prices of their products to be fixed at import parity made it unnecessary for the purpose of price fixation to go into their cost of production. Moreover, the machinery at the disposal of Government for collection and analysis of data regarding world trends is far from adequate, considering that the trade in oil & oil products is dominated by powerful monopolies operating through a chain of intermediary and associated firms as well as a complex system of discounts and rebates. For a proper understanding of the world situation regarding supply, demand, prices and freights, special studies have to be made to interpret and supplement published data. Successive Committees appointed to recommend prices of oil products have suffered from the same handicaps. We, therefore, propose to set out briefly in this chapter (a) what in our judgement are the chief impediments at present to a rational determination of oil prices, (b) certain features of the present arrangements with the oil companies for import of crude or otherwise which we believe are prejudicial to the long-term interests of the oil industry and of the economy generally, and (c) the broadlines of action necessary to remedy the present situation.

28.2 We are not aware of the reasons why indigenous crude was excluded from our terms of reference. In all probability this was done because unlike imported crude, indigenous crude does not have a bearing on import parity which alone has hitherto been the basis of price fixation. In our view, an investigation into the cost of indigenous crude is necessary for a proper appreciation of the economics of the indigenous oil industry. In fact, figures were produced before us of the cost of indigenous crude by the State Governments of Assam and Gujarat and by other interests to support their claim for lower prices of petroleum products in which they were interested. These figures were obtained from sources which could not be regarded as up-to-date and since we were ourselves precluded from going into the cost of production of indigenous crude, an examination of these claims from this particular angle became impossible. After devaluation, adjustments were made in the cost of indigenous crude charged to the refineries but on independent investigation has yet taken place about the reasonableness or otherwise of these adjustments. Indigenous production of crude now amounts to 6 million tonnes out of a total of 16 million tonnes consumed in the country. Indigenous production is expected to go up in the coming years and we, therefore, consider it advisable not to defer a proper investigation into its cost by an independent agency.

28.3 The Oil and Natural Gas Commission has acquired mining rights in the Persian Gulf area and substantial quantities of Rostam crude have now become available for disposal. We understand that ONGC is unable to sell this crude to the foreign refineries in India because the latter have the right under their agreement, with the Government of India to import crude from foreign sources of their own choice and are under an obligation to buy only indigenous crude. We are unable to understand why the foreign refineries should invoke this right in order to avoid buying Rostam crude from ONGC. It seems to us a little odd that Government of India should have to seek foreign markets for the disposal of Rostam crude belonging to it when large quantities of crude of more or less similar quality are being imported into India and not at a more favourable price.

28.4 Although the domestic refining industry has developed sufficiently to make the country self-sufficient in most of the major petroleum products, the country is still spending a substantial amount of foreign exchange (about Rs. 100 crores per year) on imports of crude. It is unfortunate that in regard to this item, which constitutes a major item in our foreign exchange budget, our agreements with refineries are couched in terms which provide no assurance that the prices paid for imports will be competitive. Prices of imported crude have always been a matter of tug-of-war between Government and the oil companies and reductions have had to be secured by pressure. We understand that many countries like Japan, Pakistan etc. import crude through Governmental agencies by inviting global tenders so that even after allowing for the ramifications of the monopolies operating in this field there is some scope for obtaining favourable terms. The Ministry of Petroleum & Chemicals has been receiving competitive bids for a part of the crude requirements of CIL and such offers have had some salutary effect. Although difficulties have arisen, we would like this approach to be pursued. As stated above, it would be unwise to rely on published data alone to satisfy ourselves about the reasonableness of the prices of imported crude. The published information about posted prices, discounts and rebates, needs to be supplemented with considerable study in order to realise its proper implications and to use it in dealings with foreign firms. The existing arrangements for this purpose are far from adequate. Government have considerable experience in handling purchases of imported materials on bulk basis and there is already a strong trend of opinion in favour of extending the area of import canalisation. Having regard to the magnitude of foreign exchange involved in imports crude oil, we would consider this to be a suitable item for purchase through a centralised agency.

28.5 The existing arrangements for import of crude required by the Cochin, Madras and Haldia refineries have certain features which may militate against supplies being obtained on the most favourable terms. In the case of CIL, in spite of the recent modification of the formation agreement, which provides for termination or revision of the agreement for crude supply after October, 1970, Phillips will continue to act as agents of that refinery and to have the right to arrange for supplies of imported crude. This right, however, is subject to an obligation to substitute a crude oil or a blend of crude oil that may be suggested by the Government of India. We are not sure whether the commitment to use the services of Phillips for purchase of crude would not mean an unnecessary addition to costs. The agreement with Phillips also contains a provision whereby in the event of the price of imported crude being reduced, the

quantum of the process margin, on the basis of which the maximum payment to be made by Government in any particular year to Philips is determined, will be adjusted accordingly. We do not see the justification for this provision, since Philips are expected to buy crude for CRL at world competitive prices and are themselves not producers of crude.

28.6 In the case of MRL, an agreement between the Government of India, National Iranian Oil Co. and the PAN American International Oil Co. provides for supply of 42 million tonnes of crude oil to that refinery over a period of 22 years at a price of \$1.35 per barrel f.o.b. In the first place, the propriety of making a commitment to import crude from a specified source for as long a period as 22 years, is open to question. Secondly, the provisions for variations in the stipulated price to take account of the changing world conditions of supply and demand are couched in terms which are liable to give rise to controversy. In terms of this agreement the stipulated price will be no less favourable to the buyer than the price of Darius crude oil delivered under an agreement entered into with another purchaser, in the circumstances comparable to those in which this agreement was entered into and on the terms of sale comparable to those of this Agreement. We feel that the refinery's right to buy its essential raw material at the most competitive price should not have been circumscribed by these stipulations. The agreement would seem to fetter the refinery's freedom to import crude from sources of its own choice, and thereby overlooks the need for conserving foreign exchange.

28.7 The arrangement for supply of crude to the Haldia Refinery also suffers from similar drawbacks. The relevant agreement imposes certain limitations on the freedom of the refinery to obtain supplies from sources of its own choice for certain specified quantities. Moreover, the variations in price are subject to conditions which, we believe, should not have been agreed to, in order that the Government may have the full freedom to negotiate prices according to the changing world conditions.

28.8 We feel that with the virtual elimination of imports of all major products except kerosene, lubricants and specialities, the concept of import parity has now become obsolete. The principle of replacement cost, undoubtedly a sound one, cannot be accepted for all time as the sole basis of price fixation. For the domestic economy, one of the benefits to be expected from the growth of indigenous production is by way of a reduction of costs, at least to the extent of the freight payable on imports. Hence, to tie domestic prices for all time to landed costs of imports is to deprive the country of a major benefit from industrialisation. An industry may well expect to benefit from the higher cost of imports, including freight, in the initial stages of its development, but to confer on it the right to maintain prices on par with import costs even after it has developed enough to meet the entire domestic requirements and imports have been eliminated is in our view wholly unjustified. The fact that there are practical difficulties in determining the cost of production of individual products is not an adequate reason for disregarding the trend of overall costs and relying exclusively on world prices especially when there is no assurance that the latter are determined by free competition. We have been advised that the principle of import parity embodied in the following extracts from the

Agreements with ESSO, Burmah Shell and Caltex leaves no scope for prices to be fixed on the basis of domestic costs of production :

ESSO

Assurance that the Government will permit the Indian Company to establish the prices of products ex-refinery from time to time at any level not higher than Bombay landed cost, including wharfage, landing charges and import duty, of comparable products available to SVOC (now Esso) from other supply sources, provided that subject to the forgoing principle, the Indian Company shall consult the Government before it makes changes in the price of any of its products.

Burmah-Shell

The Government will permit the Oil Companies to establish the prices of the refinery products from time to time at any level not higher than that at which they sell, or could make available for sale equivalent imported products, provided that subject to the foregoing principle, the Oil companies shall consult the Government before they alter the price of any of the products.

Caltex

Assurance is requested that the Government will permit Caltex to establish the prices of the refinery products from time to time at any level not higher than that at which Caltex sells, or could make available for sale equivalent imported products; provided that, subject to the foregoing principle, Caltex will consult the Government before altering the prices of any of the products.

The seriousness of this anomaly may be seen from the fact that the Agreements referred to above contain no provision for revision or termination, but only provide for Government's right to acquire or take over the operations of the companies after a date too distant for our purpose (i.e. 25 years from the commencement of the operations).

28.9 The concept of import parity is useful for the limited purpose of assessing the reasonableness of domestic prices and thus evaluating the relative performance of Indian and foreign producers. However, the adoption of import parity as the basis of price fixation has led to the producers in India claiming the right to raise the prices of their products to the full extent of the increase in landed costs of imports arising from any factor whatsoever and regardless of whether their own costs of production have gone up to the same extent. In actual practice, Government have made a distinction between f.o.b. prices of products and the freights from Persian Gulf. The f.o.b. prices were kept frozen for a period while the variations in freight were admitted as warranting an increases in product prices. We understand, that a freight adjustment pool is being maintained in which the oil companies are credited with unrealised increases in product prices due to increases in freights on products. Indeed, some adjustment is due to the producer on account of increases in freight on crude but the adjustment due on this account may not correspond to the adjustment made on the basis of variations in freight on products. Any adjustment due to the producer on account of the freight on crude

should properly be made only after assessing its actual incidence, on his cost of production. We feel that it is artificial and unrealistic to apply the import parity concept to the extent of permitting variations in domestic prices on account of variations in freights on products (and there have been wide fluctuations in freights recently owing to the Middle Eastern crisis), without any examination of the extent to which the cost of production has been affected by increases in the cost of crude. It is common knowledge that crude is transported in super tankers for which the freights are lower while the freights assumed in calculating the import parity for products are on the basis of their transportation in smaller general purpose vessels for which the freights are much higher. In our view, all the credits and debits in the freight adjustment account should be reviewed and only such adjustment should be allowed to the oil companies as can be realistically related to the change in cost of crude and not of the imported products. Adjustments on account of increases in freight on products are being claimed by the Indian Oil Corporation also in spite of the fact that the entire crude used by the Corporation's refineries is of indigenous origin and, therefore, its cost is unaffected by freight changes. ONGC and OIL base their prices of crude on import parity and they also carry this concept to the extent of including freight variations in determining their prices. Thus, the concept of import parity has given rise to a totally unrealistic situation.

28.10 As a result of prices being fixed solely on the basis of import parity, no account is taken in any price enquiry of the cost of production at the indigenous refineries. In an industry of such basic importance and where so much investment is being made, proper planning would require a careful study of the actual cost of production. Reliance on import parity may divert attention from the relative levels of efficiency at the various refineries.

28.11 In their agreement with the Government of India in respect of CRL, Phillips have been guaranteed a net average annual dividend of \$388,270.24 equal to 10 per cent of their equity investment. This return is free of taxation and is payable in foreign currency so that it is free of any exchange risk. Although Phillips are a partner in this enterprise, they have been assured of a minimum return on their investment regardless of any decline in profits which may result from an increase in the operating costs of the refinery, although they also along with the Government of India, have a responsibility to keep the operating costs to the minimum. The amount of minimum dividend payable to Phillips has to come out of the prices received by CRL for its products. If the prices do not yield the minimum dividend, the difference has to be made up by the Government of India. Consequently, the guarantee of a minimum dividend introduces an element of rigidity in the effective prices payable in respect of CRL's products. This is another instance of the difficulties created by our agreements with foreign companies in the way of determining prices of petroleum products on a rational basis. In our view, it is most undesirable in principle to assure any foreign collaborator of a minimum return in foreign exchange out of income earned in India.

28.12 Freight is an important element for the landed cost of crude, accounting for approximately 10 per cent of the total. Moreover, revolutionary changes are taking place in tanker freights. Tankers of ever increasing sizes are being put into operation and freights are going down.

correspondingly. In such circumstances we are unable to see the propriety of any importing country committing itself to particular agencies for providing transport and for a period of several years ahead. In the case of CRL, Phillips have been appointed as agents for negotiating tanker arrangements and they have entered into a firm price contract of affreightment with Triton Shipping Inc. for a period of 5 years from the date of commencement of CRL's commercial operations and this period is extendable for 5 periods of one year each under certain conditions. As in the case of supplies of crude any such arrangement for its transport is likely to operate to our disadvantage at a time when freight rates are showing a steadily downward trend.

28.13 It should be obvious from the above that the present situation is highly unsatisfactory from the point of view of securing imports of crude on the most favourable terms, maintaining the prices of products in fair relation to their cost of production and keeping a vigilant watch over the world trends of supply, demand and prices. We would, therefore, recommend that a specialised agency to be called, National Petroleum Commission, should be set up on a statutory basis to renegotiate the various agreements with the oil companies concerning the basis of price fixation, transport arrangements and other relevant factors. We are aware that some of these agreements contain no provision for review or termination. However, as pointed out above, they have certain features which are likely to be prejudicial to the country's long term interests and a reasonable ground, therefore, exists to seek renegotiation. The Commission should be the policy making and coordinating authority with respect to all aspects of this industry from exploration to marketing. It should develop the necessary organisation for making a continuous study of world trends so as to be able to obtain the best possible terms in the purchase of crude and sale of surplus products as well as in any future collaboration arrangements. Our discussions with the Oil companies show that surplus products like naphtha were being sold by them only to their associate companies and they have no arrangements to verify whether the prices realised are the best available. While the future development of the petroleum refinery industry in India will call for considerable cooperation from the foreign oil interests, it is time that we reduced our dependence on them in matters on which we must act independently to safeguard the country's essential interests.

28.14 It is not a satisfactory feature of India's oil economy that despite considerable expansion of indigenous refining capacity, the country is still dependent on imports of kerosene, an essential article of mass consumption. We have not been able to examine the causes of this deficiency, in particular, whether it is due to the pattern of production and processes being out of tune with local needs or to the relative profit margins available to the producer for different products from a system of prices linked to the pattern of world prices, or to the demand for kerosene in the country being inflated through its use for adulteration in HSD. In any case, we feel that the question deserves a careful study by Government both from the technical and the policy angle. The growing consumption of kerosene and the consequent increase in foreign exchange expenditure have already become a matter of concern, but the action suggested to remedy the situation is often in the direction of making kerosene more costly to the consumer through an increase in duties. From a social stand-point, this is not a desirable approach. We would, instead like greater attention to be devoted to the possibility of increasing domestic

production of kerosene, if necessary, at the expense of other products, through, either a technical adaptation of the refining processes or a suitable modification of the system of ex-refinery prices so as to provide better incentive for the production of kerosene. We have not been able to recommend a modification in the pricing structure from this angle, because, for the reasons stated earlier, our recommendations about ex-refinery prices have had to be linked to import parity.

28.15 In the past the foreign oil companies were permitted to exceed their approved capacity from time to time. We recognize that Government might have found this to be in the country's overall interest in the circumstances of the time. However, we feel that the working of the foreign oil refineries should conform to a settled plan and policy and we, therefore, recommend that in future any policy adopted by Government, in consultation with the Commission proposed by us, with regard to the expansion or otherwise of the capacity of foreign oil refineries, should be strictly adhered to.

28.16 The present system of Block Control over lubricants and greases has certain features which are not fair to the consumer as well as the Exchequer. In theory, the system provides for any over-recoveries made by the oil companies by way of marketing charges and profit being adjusted in a subsequent period through a reduction in prices or by some other means. In actual practice, however, the over-recoveries have been adjusted only through the levy of non-recoverable duties. In our view, this is not fair to the consumer who is entitled to relief through a reduction in prices. Further, while fixing the rates of non-recoverable duties, only the over-recoveries in a past period are taken into account in conjunction with the estimated sales for a future period, but the oil companies are not asked to reduce prices suitably to prevent continuing over-recoveries in future. This has the effect of the oil companies continuing to recover from the consumer marketing charges and profit in excess of the rates considered reasonable by Government and the companies thus remaining in possession of large funds pending their mopping up through non-recoverable duties at a later date. The system thus gives the oil companies an undue advantage. Although we have reserved a full examination of this system till the next part of our inquiry, we feel that these aspects of Block Control are important enough to merit immediate attention.

CHAPTER TWENTYNINE

Summary of Conclusions and Recommendations

Our conclusions and recommendations are summarised below :—

1. An analysis of the working results of the oil companies, on the basis of their published accounts for 1967 (1967-68 for IOC and CRL), shows that except in the case of Esso the gross profit on the integrated operation of refining and marketing and of refinining only in respect of CRL has not been less than 11·50 per cent on capital employed.

(Paragraphs 3·9, 3·11·7, 3·12·1, 3·13·2 and 3·14·3)

2. For the years 1970 to 1972 an average annual sale of 23·29 million kilolitres of bulk refined products, bitumens, lubricants, greases, specialities, naphtha and LPG is estimated for Burmah-Shell, Esso, Caltex and IOC, the share of each being 20·39, 12·31, 6·67 and 60·63 per cent, respectively.

(Paragraph 4·3)

3. The arrangements for supply of crude oil to ESRC, BSR and CORIL are designed to ensure that imports are made from their affiliates/associates abroad and the prices actually paid to the original suppliers of crude in the Middle East are not known.

(Paragraphs 5·3·2, 5·3·8, 5·3·11 and 5·3·13)

4. The modified agreement in respect of CRL provides for certain unusual incentives and concessions to Phillips.

(Paragraphs 5·3·20, 28·11 and 28·12)

5. The crude oil sales agreement for 22 years in respect of MRL contains no provision for adjusting prices according to the discounts on crude available from time to time.

(Paragraph 5·3·24)

6. The agreement in question does not provide for sufficient assurance that the price chargeable for crude supplied to MRL will be reduced when transactions take place in the world market at lower rates.

(Paragraphs 5·3·24 and 5·3·25)

7. The agreement for the supply of crude oil to Haldia refinery leaves room for considerable uncertainty about a reduction in the contract price in the event of a fall in world prices.

(Paragraph 5·3·28)

8. BSR, ESRC and CORIL receive foreign exchange allocation for transportation of crude oil at INTASCALE with AFRA variation but it is not known whether marine freight is actually paid to the carriers on the same basis.

(Paragraph 5-5)

9. The entire requirements of crude oil of the country should be imported through a single agency by inviting competitive bids for supply over a specified period. The existing agreements/contracts may be re-negotiated to remove any impediments in the way of crude oil being imported at world competitive prices.

(Paragraph 5-8)

10. The world supply and demand position of crude oil has undergone a radical change in recent past indicating the probability of a marked downward trend in prices of Middle East crudes over the next few years.

(Paragraph 5-11)

11. Within three months and after formally communicating to the Committee that it had failed to secure any reduction in the price of crude oil, Burmah-Shell informed Government that its suppliers had offered a reduction of 4 cents per barrel. Similar reductions were offered by Caltex and Esso.

(Paragraph 5-12)

12. The following rates of discounts on the f.o.b. posted prices of crude oils are recommended :—

	US dollar/bbl
(i) Iranian light (Aghajari)/Arabian light	0-51
(ii) Arabian medium	0-34
(iii) Arabian heavy	0-37
(iv) Iranian heavy	0-43
(v) Kuwait	0-38
(vi) Darius	0-38

Government should build up their own system of intelligence regarding discounts available in the world market from time to time.

(Paragraph 5-14)

13. The post prices of products also are subject to discounts, although the private oil companies deny the prevalence of discounts in this case.

(Paragraphs 8-7 to 8-9)

14. Import parity is no longer an adequate basis for price fixation; however, Government's commitment to permit the oil companies to maintain the prices of their products at import parity makes it impossible to adopt any other basis.

(Paragraph 8-10)

15. After prices are determined for a period on the basis of import parity, such prices should be kept unchanged for that period, except for major known variations in the cost of production actually incurred.

(Paragraph 8·11)

16. Taking into account the rate of discount recommended by us on light Iranian crude, principally in use in India, we have applied a uniform discount of 4 per cent to posted prices of products. If the discount on light Iranian Aghajari crude increases, the discount on posted prices of products should be increased by 4 per cent for every 10 cents extra discount on crude.

(Paragraph 8·12)

17. It would be anomalous to stick to a port based pricing system when a growing proportion of the country's requirements is being met from inland sources. The consumers in the region where the refineries are located have a right to benefit by the growth of local production. We, therefore, recommend that all inland refineries should be treated as pricing points in addition to the eight main ports and the supply areas should be revised.

(Paragraph 9·5)

18. When movements are regulated on an all-India plan, all under-recoveries may be deemed to have resulted from movements considered necessary in the national interest and should, therefore, be borne by the general body of consumers and not by the oil companies; the latter should be reimbursed for the entire net underrecoveries incurred by them, including the under-recoveries on coastal movement.

(Paragraph 9·14)

19. A surcharge be levied on the total consumption of major fuel products on a budgeted basis and the oil companies be compensated for their net under-recoveries out of the proceeds of this surcharge. The estimate of such a surcharge is Rs. 7·05 per Kl.

(Paragraphs 9·15 and 9·16)

20. The introduction of uniform prices all-India is not considered feasible. A regional pool is also not recommended.

(Paragraphs 10·6 and 10·7)

21. The concept of free delivery zone currently applicable at main ports and concentrated upcountry markets for motor spirit and HSD should be extended to other products, particularly furnace oil.

(Paragraph 10·8)

22. The existing system of pool prices for motor spirit and kerosenes in the Assam supply area should be continued. The rates of surcharge are presently revised only on the basis of AOC's operation. In future the data for IOC should be also taken into account.

(Paragraph 10.9)

23. The under/over recoveries arising in the Assam supply area as a result of inland refineries being made pricing points should be taken into account along with the all India under-recoveries and not lumped with the pool account for motor spirit and kerosene applicable to supplies in that area.

(Paragraph 10.10)

24. In the pricing formula the notional element of marine freight has been included at GP vessel rates for all products except furnace oil and bitumens for which it has been included at MR vessel rates.

(Paragraphs 11.3.3 and 11.4.4)

25. The incidence of marine freight has been calculated on the basis of INTASCALE and should be modified according to WORLD-SCALE from the date it comes into effect.

(Paragraph 11.3.4)

26. The rate of agents' commission for light diesel oil has been adopted at the existing rate, viz., Rs. 6.60 per Kl.

(Paragraph 11.3.13)

27. In respect of bitumens, the bulk parity prices have been adopted for all the eight ports and cost of packing has been included on the basis of indigenous experience.

(Paragraph 11.4.2)

28. The selling prices of imported products may be at par with the ceiling prices recommended for domestic products.

(Paragraph 12.4)

29. With the increase in production of lubricants, the oil companies should be expected progressively to introduce specification grades in place of branded products.

(Paragraph 13.7)

30. For lubricants and greases, which are predominantly imported and are only blended and packed in the country, the existing system of Block Control on marketing/distribution charges and profit should continue.

(Paragraph 13.13)

31. On the basis of the data for Burmah-Shell, Esso, Caltex and IOC. the ceiling rates recommended for marketing/distribution charges and profit are Rs. 84.12 and Rs. 23.60 per Kl, respectively.

(Paragraph 13.13)

32. To remove the difficulties experience in the past in the operation of Block Control, the oil companies should review their prices at frequent intervals and make prompt adjustments to obviate large accumulations of over/under-recoveries.

(Paragraph 13.14)

33. The prices of those lubricants and greases which are predominantly produced in India together with the prices of lube base stock will be examined in the next part of the enquiry. For the present such lubricants and greases may also continue to be subject to the system of Block Control applicable to imported products.

(Paragraph 13.15)

34. Some aspects of the system of Block Control, viz. regulation of blending and packing charges for individual products, groups of products, or on a block basis, will also be examined during the next part of the enquiry.

(Paragraph 13.16)

35. The selling prices of mineral turpentine and jute batching oils ex-companies' storage points should continue at the existing levels and these products should be exempted from Block Control on marketing/distribution charges and profit.

(Paragraph 13.20)

36. SBP spirits/hexane/solvent oils, roofing materials and household specialties should be exempted from Block Control on marketing/distribution charges and profit because of their relatively small volume of sales.

(Paragraph 13.21)

37. A ceiling price need not be fixed for LPG supplied in bulk to industrial consumers.

(Paragraph 14.3)

38. The current selling prices of LPG of the private oil companies to domestic consumers should be reduced all over India by Rs. 207 per tonne or Rs. 3.00 per cylinder of 14.5 kg. As IOC is already charging 86 paise per cylinder less, its price to domestic consumers should be reduced by Rs. 2.14 per cylinder of 14.5 kg.

(Paragraph 14.6)

39. The ceiling prices for naphtha have been determined on the basis of the import parity for light fuel.

(Paragraph 15.4)

40. A ceiling price has not been fixed for naphtha used as industrial fuel.

(Paragraph 15·5)

41. All the main eight ports and the inland refineries should be the pricing points for naphtha as for other bulk refined products.

(Paragraph 15·6)

42. No ceiling prices are proposed for carbon black feedstock, hot heavy stock, iomex, JP-4/JP-5, low sulphur heavy stock, malarial larvicidal oil, petroleum coke, pesticides, refinery gas and tea drier oil. The price of RFO to the Gujarat State Electricity Board and other consumers in Gujarat should be Rs. 45 per tonne.

(Chapter 16)

43. Petroleum coke should be used for industrial purposes to the maximum extent possible and its use as domestic fuel should be curtailed and the possibility of exporting larger quantities should be explored.

(Chapter 16, item vii)

44. The packed/bulk differential for 18·5 litre tins has been estimated at Rs. 3·60 per tin escalation being allowed on the basis of standard consumption of 1·15 kg. of tinplate per tin, for any variation in the average all-India price of tinplate compared with the price of Rs. 2·663 per kg.

(Paragraph 17·2)

45. IOC, Burmah-Shell, Esso and Caltex are expected to meet during the period 1970 to 1972 about 95 per cent of the total demand in the country. The future estimate of marketing/distribution charges has been based on the data relating to these companies.

(Paragraph 18·1)

46. The average charges during 1967-68 per kl. of sales came to about Rs. 20 in the case of IOC, while the same ranged in 1967 between Rs. 34 to Rs. 37 in the case of the foreign oil companies.

(Paragraph 18·4)

47. There is considerable room for economy in marketing charges in the case of the foreign oil companies but they should be allowed reasonable time to affect such economy in order to soften its impact on employment and the established channels of distribution.

(Paragraph 18·6)

48. The quantum of marketing/distribution charges allowed per unit of each product is given in paragraph 18·7.

49. A return of 12 per cent on capital employed is considered fair and reasonable for the marketing activity.

(Paragraph 19·2)

50. In respect of bulk refined products, bitumens, lubes and greases but excluding LPG, naphtha and specialities, the net value of the block has been estimated at Rs. 32·16 per kl., working capital at 10 per cent of the annual cost of sales at Rs. 53·19 per Kl. and the total capital employed at Rs. 85·35 per kl. The return on capital employed in marketing is 2·09 per cent of the cost of sales.

(Paragraph 19·3)

51. The quantum of profit allowed per unit of each product is given in paragraph 19·4.
52. The dealers' commission for motor spirit may remain at the existing rate of Rs. 41·80 per kilolitre. The rate of commission for high speed diesel oil, however, may be revised to Rs. 37·60 per kl. Since this is inclusive of the service charge at present levied in some parts of the country, the dealers should not recover any service charge in future.

(Paragraph 20·13)

53. Licence fees charged to any dealer should remain unchanged at the average rate charged to that dealer during the last completed financial year of the company, but, if the commission earned by a dealer increases by substantially more than 50 per cent, the licence fee may be raised by not more than 5 per cent of such increase provided such increase is essential to earn a reasonable return on the investment of the oil company. The licence fee if levied on a new outlet in the first year of its operation should not exceed 10 per cent of the commission earned by a dealer in that year.

(Paragraph 20·17)

54. Government should look into the dealership agreements to modify any harsh clauses creating a sense of insecurity for the dealers.

(Paragraph 20·18)

55. No increase is proposed in the existing rate of commission to kerosene agents/dealers of Rs. 7·70 per kilolitre but the local authorities should use their discretion to allow reimbursement of any extraordinary expenditure which the dealers may have to incur under local conditions.

(Paragraph 21·4)

5. The recommended ceiling prices exclusive of non-recoverable duties and dealers' retail commission wherever applicable are shown in paragraph 23·1. In the past the Government has followed the practice of keeping the current prices unchanged and imposing non-recoverable duties at uniform rates on sales at all ports on the basis of the average difference between the current and the recommended prices. This system has some drawbacks, hence, certain modifications have been recommended in paragraph 23·4.

57. The pattern of sales for the future is based on the data furnished by Burmah-Shell, Esso, Caltex and IOC through the different ports during 1970 to 1972.

(Paragraph 24.2)

58. The reduction in the aggregate annual gross receipts of the four major oil companies from various products excluding naphtha resulting from the difference between the recommended ceiling prices and the current ceiling prices is estimated at Rs. 192.783 million.

(Paragraph 24.3)

59. The price structure recommended by us should remain valid for three years from the date of its implementation, subject to adjustments on account of the specified factors.

(Paragraph 25.2)

60. The price of packed bitumen is subject to adjustment for changes in the cost of drums on the basis of delivered price of drum sheets to BSR over Rs. 1,486 per tonne of 24 gauge drum sheets for a consumption of 63.2 kg. per tonne of bitumen straight grades and Rs. 1,428 per tonne of 21 gauge drum sheets for a consumption of 90.3 kg. per tonne of bitumen cutbacks.

(Paragraph 25.2)

61. The import parity for products should be adjusted for variations in marine freight and wharfage only to the extent of their effect on the cost of crude. But such variations may be allowed to be recovered in the case of imports of deficit products to the extent of actuals. Refineries moving products by coast to Indian ports should also be entitled to recover the actual increases in costs due to variations in wharfage.

(Paragraph 25.3)

62. The surcharges on ceiling prices applied from the 1st May, 1968, to compensate the oil companies for the notional increase in marine freight on products following the Middle East crisis should be limited to the actual increase in the cost of crude oil to the refineries.

(Paragraph 25.4)

63. The additional (non-recoverable) duties levied on the refineries may, for the time being, be continued at the existing rates and the over/under recoveries calculated in the light of the ceiling prices now recommended may be recalculated annually on the basis of the anticipated production pattern of the individual refineries for the years 1970 to 1972 and adjustments made in the existing rates of additional (non-recoverable) duties on the basis of such annual assessment.

(Chapter 26)

64. Government may take suitable action to consider the feasibility of reducing expenditure in foreign exchange on account of marine freight on coastal movement of products, which was of the order of Rs. 41 million in 1967 and Rs. 43 million in 1968.

(Paragraph 27·1)

65. The present situation is unsatisfactory from the point of securing the best prices for our exports of surplus products. The State Trading Corporation should equip itself to handle exports, so that better prices may be secured with proper planning and improved arrangements for intelligence..

(Paragraph 27·4·2)

66. Action should be taken by Government to prevent the burning of olefins by the refineries, except where they are satisfied that separation of this material from the refinery gas is not feasible.

(Paragraph 27·6)

67. Government should review the basis on which the oil companies are being allowed to make remittances to their principals on account of overseas expenses and other services, with a view to reducing them and over a period of time eliminating them altogether.

(Paragraph 27·7)

68. The suggestions made by the oil companies for improvement of the existing system regarding levy and collection of duties and rail and road transportation of products are dealt with in paragraphs 27·8·1, 27·8·2 and 27·8·3.

69. There should be a proper investigation into the cost of indigenous crude by an independent agency.

(Paragraph 28·2)

70. A substantial quantity of Rostam crude has now become available to Government from the Iranian off-shore areas, but it is understood that Government is unable to sell this crude to the private refineries in India because of the right conceded to them to import crude from their own sources. It is anomalous that Government should have to seek foreign markets for the disposal of this crude when large quantities of crude of more or less similar quality, are being imported at higher prices.

(Paragraph 28·3)

71. The concept of import parity ignores the cost of production of indigenous refineries and thus diverts attention from the relative levels of efficiency at the various refineries.

(Paragraph 28·10)

72. The Committee's suggestions on some major policy aspects are given in Chapter 28. In particular, it is recommended that a National Petroleum Commission be established on a statutory basis to renegotiate the agreements with the foreign oil companies and to serve as the policy making and coordinating authority in respect of all aspects of this industry, from exploration and supply of crude to the marketing of products.

(Paragraph 28·13)

73. Greater attention should be devoted to increasing domestic production of kerosene.

(Paragraph 28·14)

74. The actual operation of Block Control on lubricants and greases is not fair to the consumer as the oil companies are not asked to reduce prices suitably to prevent continuing over-recoveries in future.

(Paragraph 28·16)



CHAPTER THIRTY

Acknowledgements

We wish to place on record our high appreciation of the assistance received from Shri N. R. Law, Secretary and his staff. By virtue of his association with the earlier inquiries, Shri Law has acquired an insight into this rather intricate problem. We have benefited a great deal by his knowledge of this subject and his familiarity with the sources of information. He has lightened our task by assuming a heavy load of work at each stage of our investigation, from the preparation of questionnaires to the drafting and finalisation of the Report. He has also made valuable contribution to our deliberations.

2. Our thanks are also due to Shri S. V. Rajan, Senior Cost Accounts Officer, Shri V. R. Mehta, Cost Accounts Officer and the staff working with them. Under the direction of Shri N. Krishnan, Chief Cost Accounts Officer and a Member of this Committee, the Cost Accounts Officers and their staff have put in an enormous amount of work in collecting, collating and analysing the cost data. In fact, the cost Report forms the basis for most of our recommendations in regard to prices and related matters. In addition, Shri Rajan participated in our deliberations and made valuable suggestions.

3. We also wish to thank the representatives of the Central and the State Governments, Associations, Chambers of Commerce, oil companies and other organisations and individuals, who sent replies to our questionnaires, attended meetings and discussions arranged by us and otherwise helped us with information and advice on various aspects of this inquiry.

(Shantilal H. Shah)
Chairman

(B. N. Adarkar)
Member

(B. Natarajan)
Member

(N. Krishnan)
Member

(N. R. Law)
Secretary

New Delhi dated the 31st October, 1969.

STATEMENT NO. 1

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Aviation Spirit/Gasoline 100/130 Octane (Aviation Gas Grade 100/130)

Details	Selling Unit : Kilo-Litre									
	Bombay	Kandla	Okha	Mormugao	Cochin	Madras	Vizag	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	289.11	289.11	289.11	289.11	289.11	289.11	289.11	289.11		289.11
Less Discount at 4%	11.56	11.56	11.56	11.56	11.56	11.56	11.56	11.56		11.56
(i) Net f.o.b.	277.55	277.55	277.55	277.55	277.55	277.55	277.55	277.55		277.55
(ii) Freight	8.64	11.02	10.78	10.70	10.83	15.80	15.71	15.76		15.76
(iii) Insurance at 0.055% on f.o.b.	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15		0.15
(iv) Ocean loss at 0.54% on cif	1.55	1.56	1.56	1.56	1.56	1.58	1.58	1.58		1.58
(a) C.I.F.	287.89	290.28	290.04	289.96	290.09	295.08	294.99	295.04		295.04
(b) Customs & Excise Duties (basic)	609.27	609.27	609.27	609.27	609.27	609.27	609.27	609.27		609.27
(c) Wharfage	10.13	7.06	5.40	3.15	5.00	11.79	4.46	25.86		25.86
(d) Other compulsory landing charges	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80		1.80
(1) Landed Cost	909.09	908.41	906.51	904.18	906.16	917.94	910.52	931.97		931.97
(2) Installation	32.16									
(3) Administration	15.41									
(4) Distribution	14.14									
(5) Profit	21.62									
(A) Ex-Company's Storage Points	992.42	991.74	989.84	987.51	989.49	1001.27	993.85	1015.30		1015.30
(6) Airfields	44.60	44.60	44.60	44.60	44.60	44.60	44.60	44.60		44.60
(B) Ex-International Airfields	1037.02	1036.34	1034.44	1032.11	1034.09	1045.87	1038.45	1059.90		1059.90
(7) Surcharge for other airfields	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50		17.50
(C) Ex-other airfields	1054.52	1053.84	1051.94	1049.61	1051.59	1063.37	1055.95	1077.40		1077.40

STATEMENT NO. 2

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Aviation Spirit/Gasoline 115/145 Octane (Av. Gas 115/145)

Details	Selling Unit : Kilo-Litre									
	Bombay	Kandla	Okha	Mormugao	Cochin	Madras	Vizag	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28.5.69	314.45	314.45	314.45	314.45	314.45	314.45	314.45	314.45		
Less Discount at 4%	12.58	12.58	12.58	12.58	12.58	12.58	12.58	12.58		
(i) Net f.o.b.	301.87	301.87	301.87	301.87	301.87	301.87	301.87	301.87		
(ii) Freight	8.47	10.81	10.57	10.49	10.62	15.49	15.41	15.41		
(iii) Insurance at 0.055% on f.o.b.	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17		
(iv) Ocean loss at 0.54% on cif	1.68	1.69	1.69	1.69	1.69	1.71	1.71	1.71		
(a) C.I.F.	312.19	314.54	314.30	314.22	314.35	319.24	319.16	319.20		
(b) Customs & Excise Duties (basic)	608.84	608.84	608.84	608.84	608.84	608.84	608.84	608.84		
(c) Wharfage	9.93	7.06	5.40	3.08	5.00	11.78	4.46	25.36		
(d) Other Compulsory landing charges	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80		
(1) Landed cost	932.76	932.24	930.34	927.94	929.99	941.66	934.26	955.20		
(2) Installation	32.16	83.82	83.82	83.82	83.82	83.82	83.82	83.82		
(3) Administration	15.41									
(4) Distribution	14.14									
(5) Profit	22.11									
(A) Ex-Company's Storage Points	1016.58	1016.06	1014.16	1011.76	1013.81	1025.48	1018.08	1039.02		
(6) Airfields	44.60	44.60	44.60	44.60	44.60	44.60	44.60	44.60		
(B) Ex-International Airfields	1061.18	1060.66	1058.76	1056.36	1058.41	1070.08	1062.68	1083.62		
(7) Surcharge for other airfields	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50		
(C) Ex-other airfields	1078.68	1078.16	1076.26	1073.86	1075.91	1087.58	1080.18	1101.12		

Statement showing the recommended Ceiling Prices Ex-selling Points

Product: Aviation Spirit/Gasoline 73 (Av. Gas 73 Clear)

Selling Unit : Kilo-Litre

Details	Bombay		Kandla		Okha		Mormugao		Cochin		Madras		Vizag.		Calcutta	
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.	
Posted f.o.b. as on 28.5.69	249.70	.	249.70	.	249.70	.	249.70	.	249.70	.	249.70	.	249.70	.	249.70	.
Less Discount at 4%	9.99	.	9.99	.	9.99	.	9.99	.	9.99	.	9.99	.	9.99	.	9.99	.
Net f.o.b. as on 28.5.69	239.71	.	239.71	.	239.71	.	239.71	.	239.71	.	239.71	.	239.71	.	239.71	.
Freight	8.57	.	10.94	.	10.70	.	10.91	.	10.75	.	15.68	.	15.59	.	15.63	.
Insurance at 0.055% on fob	0.13	.	0.13	.	0.13	.	0.13	.	0.13	.	0.13	.	0.13	.	0.13	.
Ocean loss at 0.54% on cif	1.34	.	1.35	.	1.35	.	1.35	.	1.35	.	1.38	.	1.38	.	1.38	.
C.I.F.	249.75	.	252.13	.	251.89	.	251.80	.	251.94	.	256.90	.	256.81	.	256.85	.
Customs & Excise Duties (basic)	609.09	.	609.09	.	609.09	.	609.09	.	609.09	.	609.09	.	609.09	.	609.09	.
Wharfage	10.05	.	7.06	.	5.40	.	3.12	.	5.00	.	11.79	.	4.46	.	25.66	.
Other Compulsory landing charges	1.80	.	1.80	.	1.80	.	1.80	.	1.80	.	1.80	.	1.80	.	1.80	.
Landed cost	870.69	.	870.08	.	868.18	.	865.81	.	867.83	.	879.58	.	872.16	.	893.40	.
Installation	32.16	.		.		.		.		.		.		.		.
Administration	15.41	.	82.53	.	82.53	.	82.53	.	82.53	.	82.53	.	82.53	.	82.53	.
Distribution	14.14	.		.		.		.		.		.		.		.
Profit	20.82	.		.		.		.		.		.		.		.
Ex-Company's Storage Points	953.22	.	952.61	.	950.71	.	948.34	.	950.36	.	962.11	.	954.69	.	975.93	.
Airfields	44.60	.	44.60	.	44.60	.	44.60	.	44.60	.	44.60	.	44.60	.	44.60	.
Ex-International Airfields	997.82	.	997.21	.	995.31	.	992.94	.	994.96	.	1006.71	.	999.29	.	1020.53	.
Surcharge for other airfields	17.50	.	17.50	.	17.50	.	17.50	.	17.50	.	17.50	.	17.50	.	17.50	.
Ex-other airfields	1015.32	.	1014.71	.	1012.81	.	1010.44	.	1012.46	.	1024.21	.	1016.79	.	1038.03	.

STATEMENT NO. 4

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Aviation Turbine Fuel [Turbine Fuel I (-58F)]

Details	Selling Unit : Kilo-Litre									
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Vizag.	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	187.50	187.50	187.50	187.50	187.50	187.50	187.50	187.50		
Less Discount at 4%	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50		
(i) Net f.o.b.	180.00	180.00	180.00	180.00	180.00	180.00	180.00	180.00		
(ii) Freight	9.53	12.16	11.89	11.80	11.95	17.43	17.34	17.38		
(iii) Insurance at 0.055% on fob	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10		
(iv) Ocean loss at 0.54% on cif	1.02	1.04	1.04	1.04	1.04	1.04	1.07	1.07		
(a) C.I.F.	190.45	193.30	193.03	192.94	193.09	198.60	198.51	198.55		
(b) Customs & Excise Duties (basic)	202.42	202.42	202.42	202.42	202.42	202.42	202.42	202.42		
(c) Wharfage	5.54	2.84	4.44	1.96	2.53	8.88	2.40	9.12		
(d) Other Compulsory landing charges	0.88	0.88	0.88	0.88	0.88	0.88	0.88	0.88		
(1) Landed cost	399.49	399.44	400.77	398.20	398.92	410.78	404.21	410.97		
(2) Installation	4.53									
(3) Administration	9.02	28.68	28.68	28.68	28.68	28.68	28.68	28.68		
(4) Distribution	5.69									
(5) Profit	9.44									
(A) Ex-Company's Storage Points										
(6) Airfields	428.17	428.12	429.45	426.88	427.60	439.46	432.89	439.65		
	20.10	20.10	20.10	20.10	20.10	20.10	20.10	20.10		
(B) Ex-International Airfields										
(7) Surcharge for other airfields	448.27	448.22	449.55	446.98	447.70	459.56	452.99	459.75		
	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50		
(C) Ex-other airfields										
	465.77	465.72	467.05	464.48	465.20	477.06	470.49	477.25		

STATEMENT NO. 5

Statement showing the recommended Ceiling Prices Ex-selling points

Product : Motor Spirit/Motor Gasoline 79 (79 Octane)

Selling Unit : Kilo-Litre

Details	Bombay					Okha		Mormu- gao		Cochin		Madras		Vizag.		Calcutta	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Posted f.o.b. as on 28.5.69	135.67	135.67	135.67	135.67	135.67	135.67	135.67	135.67	135.67	135.67	135.67	135.67
Less Discount at 4%	5.43	5.43	5.43	5.43	5.43	5.43	5.43	5.43	5.43	5.43	5.43	5.43
Nct f.o.b.	130.24	130.24	130.24	130.24	130.24	130.24	130.24	130.24	130.24	130.24	130.24	130.24
Freight	8.60	10.98	10.73	10.65	10.79	15.73	15.65	15.65	15.65	15.65	15.65	15.65
Insurance at 0.055% on fob	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Ocean loss at 0.33% on cif	0.46	0.47	0.47	0.47	0.47	0.48	0.48	0.48	0.48	0.48	0.48	0.48
C.I.F.	139.37	141.76	141.51	141.43	141.57	146.52	146.44	146.44	146.44	146.44	146.44	146.44
Customs & Excise Duties (basic)	609.15	609.15	609.15	609.15	609.15	609.15	609.15	609.15	609.15	609.15	609.15	609.15
Wharfage	10.08	7.06	5.40	3.13	5.00	11.79	4.46	4.46	4.46	4.46	4.46	4.46
Other Compulsory landing charges	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69
Landed cost	759.29	758.66	758.66	754.40	756.41	768.15	760.74	760.74	760.74	760.74	760.74	760.74
Installation	8.64	8.64	8.64	8.64	8.64	8.64	8.64	8.64	8.64	8.64	8.64	8.64
Administration	18.15	18.15	18.15	18.15	18.15	18.15	18.15	18.15	18.15	18.15	18.15	18.15
Distribution	14.22	14.22	14.22	14.22	14.22	14.22	14.22	14.22	14.22	14.22	14.22	14.22
Profit	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15	17.15
Ex-Company's storage points	817.45	816.82	814.91	812.56	814.57	826.31	818.90	818.90	818.90	818.90	818.90	818.90
Retail Pump Outlets	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36
Ex-Retail Pump Outlets within free delivery zone	828.81	828.18	826.27	823.92	825.93	837.67	830.26	830.26	830.26	830.26	830.26	830.26

Note.—To the price at 'B' above, Dealers' commission will have to be added as recommended in paragraph 20.13.

STATEMENT NO. 6

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Motor Spirit/Motor Gasoline 93 (93 Octane)

Details	Selling Unit : Kilo-Litre									
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Vizag.	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	177.40	177.40	177.40	177.40	177.40	177.40	177.40	177.40		
Less Discount at 4%	7.10	7.10	7.10	7.10	7.10	7.10	7.10	7.10		
(i) Net f.o.b.	170.30	170.30	170.30	170.30	170.30	170.30	170.30	170.30		
(ii) Freight	8.86	11.30	11.05	10.97	11.11	16.20	16.11	16.15		
(iii) Insurance at 0.055% on f.o.b.	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09		
(iv) Ocean loss at 0.33% on cif	0.59	0.60	0.60	0.60	0.60	0.62	0.62	0.62		
(a) C.I.F.	179.84	182.29	182.04	181.96	182.10	187.21	187.12	187.16		
(b) Customs & Excise Duties (basic)	609.83	609.83	609.83	609.83	609.83	609.83	609.83	609.83		
(c) Wharfrage	10.38	7.07	5.41	3.23	5.00	11.80	4.46	26.52		
(d) Other Compulsory landing charges	0.69	0.69	0.69	0.69	0.69	0.69	0.69	0.69		
(1) Landed cost	800.74	799.88	797.97	795.71	797.62	809.53	802.10	824.20		
(2) Installation	8.64									
(3) Administration	18.15									
(4) Distribution	14.22	59.03	59.03	59.03	59.03	59.03	59.03	59.03		
(5) Profit	18.02									
(A) Ex-Company's Storage Points	859.77	858.91	857.00	854.74	856.65	868.65	861.13	883.23		
(6) Retail Pump Outlets	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36		
(B) Ex-Retail Pump Outlets within free delivery zone	871.13	870.27	868.36	866.10	868.01	879.92	872.49	894.59		

NOTE.—To the price at 'B' above will have to be added Dealers' commission as recommended in paragraph 20.13.

STATEMENT NO. 7

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : High Speed Diesel oil (53/57 Diesel Index)

Details	Bombay		Kandla		Okha		Mormugao		Cochin		Madras		Vizag.		Calcutta	
	Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.		Rs.	
Posted f.o.b. as on 28-5-69	130.49		130.49		130.49		130.49		130.49		130.49		130.49		139.49	
Less Discount at 4%	5.22		5.22		5.22		5.22		5.22		5.22		5.22		5.22	
(i) Net f.o.b.	125.27		125.27		125.27		125.27		125.27		125.27		125.27		125.27	
(ii) Freight	10.14		12.95		12.66		12.56		12.72		18.55		18.45		18.50	
(iii) Insurance at 0.055% on fob	0.07		0.07		0.07		0.07		0.07		0.07		0.07		0.07	
(iv) Ocean loss at 0.31% on cif	0.42		0.43		0.43		0.43		0.43		0.45		0.45		0.45	
(a) C.I.F.	135.90		138.72		138.43		138.33		138.49		144.34		144.24		144.29	
(b) Customs & Excise Duties (basic)	455.47		455.47		455.47		455.47		455.47		455.47		455.47		455.47	
(c) Wharfage	5.90		2.84		5.43		2.08		2.69		8.89		2.70		9.71	
(d) Other compulsory landing charges	0.79		0.79		0.79		0.79		0.79		0.79		0.79		0.79	
(1) Landed cost	598.06		597.82		600.12		596.67		597.44		609.49		603.20		621.06	
(2) Installation	5.73															
(3) Administration	14.32															
(4) Distribution	11.90															
(5) Profit	13.39															
(A) Ex-Company's Storage Points	643.40		643.16		643.46		642.01		642.78		654.83		648.54		655.60	
(6) Retail Pump Outlets	7.27		7.27		7.27		7.27		7.27		7.27		7.27		7.27	
(B) Ex-Retail Pump Outlets within free delivery zone	650.67		650.43		652.73		649.28		650.05		662.10		655.81		662.87	

NOTE.—To the price at 'B' above will have to be added the Dealers' commission as recommended in paragraph 20.13.

STATEMENT NO. 8

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Kerosene Superior (Kerosene)

Details	Selling Unit : Kilo-Litre							
	Bombay	Kandla	Okha	Mormugao	Cochin	Madras	Vizag.	Calcutta
Posted f.o.b. as on 28-5-69.	Rs. 175.70	Rs. 175.70	Rs. 175.70	Rs. 175.70	Rs. 175.70	Rs. 175.70	Rs. 175.70	Rs. 175.70
Less Discount at 4%	7.03	7.03	7.03	7.03	7.03	7.03	7.03	7.03
(i) Net f.o.b.	168.67	168.67	168.67	168.67	168.67	168.67	168.67	168.67
(ii) Freight	9.55	12.19	11.92	11.83	11.98	17.47	17.38	17.42
(iii) Insurance at 0.055% on fob	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
(iv) Ocean loss at 0.75% on cif	0.45	0.45	0.45	0.45	0.45	0.47	0.47	0.47
(a) C.I.F.	178.76	181.40	181.13	181.04	181.19	186.70	186.61	186.65
(b) Customs & Excise Duties (basic)	202.46	202.46	202.46	202.46	202.46	202.46	202.46	202.46
(c) Wharfage	2.45	2.84	4.44	1.96	2.54	4.93	2.40	9.14
(d) Other Compulsory landing charges	0.64	0.64	0.64	0.64	0.64	0.64	0.64	0.64
(1) Landed cost	384.31	387.34	388.67	386.10	386.83	394.73	392.11	398.89
(2) Installation	5.01							
(3) Administration	9.59							
(4) Distribution	9.45	32.74	32.74	32.74	32.74	32.74	32.74	32.74
(5) Profit	8.69							
(A) Ex-Company's Storage Points	417.05	420.08	421.41	418.84	419.57	427.47	424.85	431.63

STATEMENT NO. 9

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Kerosene Inferior (No. 2 Fuel)

Details	Selling Unit : Kilo-Litre							
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Vizng.	Calcutta
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Posted f.o.b. as on 28.5.69	122.57	122.57	122.57	122.57	122.57	122.57	122.57	122.57
Less Discount at 4%	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90
(i) Net f.o.b.	117.67	117.67	117.67	117.67	117.67	117.67	117.67	117.67
(ii) Freight	9.70	12.38	12.11	12.02	12.07	17.75	17.65	17.70
(iii) Insurance at 0.055% on fob	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
(iv) Ocean loss at 0.25% on cif	0.32	0.32	0.32	0.32	0.32	0.34	0.34	0.34
(a) C.I.F.	127.75	130.44	130.16	130.07	130.12	135.82	135.72	135.77
(b) Customs & Excise Duties (basic)	50.28	50.28	50.28	50.28	50.28	50.28	50.28	50.28
(c) Wharfage	2.49	2.84	4.45	1.99	2.54	4.94	2.40	9.29
(d) Other Compulsory landing charges	0.64	0.64	0.64	0.64	0.64	0.64	0.64	0.64
(1) Landed cost	181.16	184.20	185.53	182.98	183.58	191.68	189.04	195.89
(2) Installation	5.01							
(3) Administration	9.59	28.49	28.49	28.49	28.49	28.49	28.49	28.49
(4) Distribution	9.45							
(5) Profit	4.44							
(A) Ex-Company's Storage Points	209.65	212.69	214.02	211.47	212.07	220.17	217.53	224.47

STATEMENT NO. 10

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Light Diesel Oil (Industrial Diesel)

Details	Selling Unit : Kilo-Litre									
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Vizag.	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	123.47	123.47	123.47	123.47	123.47	123.47	123.47	123.47		
Less Discount at 4%	4.94	4.94	4.94	4.94	4.94	4.94	4.94	4.94		
(i) Net f.o.b.	118.53	118.53	118.53	118.53	118.53	118.53	118.53	118.53		
(ii) Freight	10.47	13.37	13.07	12.97	13.13	19.15	19.05	19.10		
(iii) Insurance at 0.055% on fob	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07		
(iv) Ocean loss at 0.44% on cif	0.57	0.58	0.58	0.58	0.58	0.61	0.61	0.61		
(u) C.I.F.	129.64	132.55	132.25	132.15	132.31	138.36	138.26	138.31		
(b) Customs & Excise Duties (basic)	94.47	94.47	94.47	94.47	94.47	94.47	94.47	94.47		
(c) Wharfrage	6.09	2.84	4.45	2.15	2.78	11.86	2.70	10.03		
(d) Other Compulsory landing charges	0.71	0.71	0.71	0.71	0.71	0.71	0.71	0.71		
(1) Landed cost	230.91	230.57	231.88	229.48	230.27	245.40	236.14	243.52		
(2) Installation	3.39									
(3) Administration	6.89									
(4) Distribution	6.17									
(5) Profit	5.30									
(A) Ex-Company's Storage Points	252.66	252.32	253.63	251.23	252.02	267.15	257.89	265.27		

STATEMENT NO. 11

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Furnace Oil (Light Fuel)

Selling Unit : Kilo-Litre

Details	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Virag.	Calcutta
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Posted f.o.b. as on 28.5.69	66.96	66.96	66.96	66.96	66.96	66.96	66.96	66.96
Less Discount at 4%	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
(i) Net f.o.b.	64.28	64.28	64.28	64.28	64.28	64.28	64.28	64.28
(ii) Freight	10.27	13.11	12.81	12.71	12.88	18.78	18.68	18.73
(iii) Insurance at 0.055% on fob	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
(iv) Ocean loss at 0.11% on cif	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09
(a) C.I.F.	74.67	77.52	77.22	77.12	77.29	83.19	83.09	83.14
(b) Customs & Excise Duties (basic)	50.24	50.24	50.24	50.24	50.24	50.24	50.24	50.24
(c) Wharfage	6.67	2.85	4.45	2.35	3.04	11.88	3.60	10.97
(d) Other Compulsory landing charges	0.32	0.32	0.32	0.32	0.32	0.32	0.32	0.32
(1) Landed cost	131.90	130.93	132.23	130.03	130.89	145.63	137.25	144.67
(2) Installation	2.37							
(3) Administration	3.93							
(4) Distribution	3.06	12.45	12.45	12.45	12.45	12.45	12.45	12.45
(5) Profit	3.09							
(A) Ex-Company's Storage Points	144.35	143.38	144.68	142.48	143.34	158.08	149.70	157.12

STATEMENT NO. 12
Statement showing the recommended Ceiling Prices Ex-selling Points
Product : Bitumen Straight Grades

Details	Selling Unit : Metric Ton									
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Vizag.	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	111.25	111.25	111.25	111.25	111.25	111.25	111.25	111.25		
Less Discount at 4%	4.45	4.45	4.45	4.45	4.45	4.45	4.45	4.45		
(i) Net f.o.b.	106.80	106.80	106.80	106.80	106.80	106.80	106.80	106.80		
(ii) Freight	21.42	25.32	24.91	24.78	24.98	33.11	32.98	33.05		
(iii) Insurance at 0.055% on fob	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06		
(iv) Ocean loss at 0.10% on cif	0.13	0.13	0.13	0.13	0.13	0.14	0.14	0.14		
(a) C.I.F.	128.41	132.31	131.90	131.77	131.97	140.11	139.98	140.05		
(b) Customs & Excise Duties (basic)	39.50	39.50	39.50	39.50	39.50	39.50	39.50	39.50		
(c) Wharfage	7.00	4.94	5.00	3.35	3.23	8.00	4.80	12.20		
(d) Other Compulsory landing charges	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50		
(e) Cost of Drums	120.90	120.90	120.90	120.090	120.90	120.90	120.90	120.90		
(1) Landed cost	296.31	298.15	297.80	296.02	296.10	309.01	305.58	313.15		
(2) Installation	4.68									
(3) Administration	5.73	20.41	20.41	20.41	20.41	20.41	20.41	20.41		
(4) Distribution	3.34									
(5) Profit	6.66									
(A) Ex-Company's Storage Points	316.72	318.56	318.21	316.43	316.51	329.42	326.09	333.56		

STATEMENT NO. 13

Statement showing the recommended Ceiling Prices Ex-selling Points

Product : Bitumen Outbacks

Details	Selling Unit : Metric Ton									
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras	Vizag.	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	129.64	129.64	129.64	129.64	129.64	129.64	129.64	129.64		
Less Discount at 4%	5.19	5.19	5.19	5.19	5.19	5.19	5.19	5.19		
Net f.o.b.	124.45	124.45	124.45	124.45	124.45	124.45	124.45	124.45		
Freight	21.42	25.32	24.91	24.78	24.98	33.11	32.98	33.05		
Insurance at 0.055% on fob	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07		
Ocean loss at by 10% on cif	0.15	0.15	0.15	0.15	0.15	0.16	0.16	0.16		
C.I.F.	146.09	149.99	149.58	149.45	149.65	157.79	157.66	157.73		
Customs & Excise Duties (basic)	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40		
Wharfage	7.00	4.94	5.00	3.35	3.23	8.00	4.80	12.20		
Other Compulsory landing charges	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50		
Cost of drums	158.44	158.44	158.44	158.44	158.44	158.44	158.44	158.44		
Landed cost	348.43	350.27	349.92	348.14	348.22	361.13	357.80	365.27		
Installation	4.68									
Administration	5.73	21.50	21.50	21.50	21.50	21.50	21.50	21.50		
Distribution	3.34									
Profit	7.75									
Ex-Company's Storage Points	369.93	371.77	371.42	369.64	369.72	382.63	379.30	386.77		

STATEMENT NO. 14
Statement showing the recommended Ceiling Prices Ex-selling Points
Product : Bitumen Cutbacks R.C. Grade

Details	Selling Unit : Metric Ton									
	Bombay	Kandla	Okha	Mormu- gaon	Cochin	Madras	Vizag.	Calcutta		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
Posted f.o.b. as on 28-5-69	143.06	143.06	143.06	143.06	143.06	143.06	143.06	143.06		
Less Discount at 4%	5.72.	5.72	5.72	5.72	5.72	5.72	5.72	5.72		
Net f.o.b.	137.34	137.34	137.34	137.34	137.34	137.34	137.34	137.34		
Freight	21.42	25.32	24.91	24.78	24.98	33.11	32.98	38.05		
Insurance at 0.055% on fob	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08		
Ocean loss at 1.10% on cif	0.16	0.16	0.16	0.16	0.16	0.17	0.17	0.17		
C.I.F.	159.00	162.90	165.49	162.36	162.56	170.70	170.57	170.64		
Customs & Excise Duties (basic)	36.40	36.40	36.40	36.40	36.40	36.40	36.40	36.40		
Wharfage	7.00	4.94	5.00	3.35	5.23	8.00	4.80	12.20		
Other Compulsory landing charges	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50		
Cost of drums	158.44	158.44	158.44	158.44	158.44	158.44	158.44	158.44		
Landed cost	361.34	363.18	362.83	361.05	361.13	374.04	370.71	378.18		
Installation	4.68									
Administration	5.73	21.77	21.77	21.77	21.77	21.77	21.77	21.77		
Distribution	3.34									
Profit	8.02									
Ex-Company's Storage Points	383.11	384.95	384.60	382.82	382.90	395.81	392.48	399.95		

STATEMENT NO. 15

Recommended Ceiling Prices Ex-Selling Points

Product : Naphtha

Selling Unit : Metric Ton
Figures in rupees

Details	Selling Unit : Metric Ton Figures in rupees					
	Bombay	Kandla	Okha	Mormu- gao	Cochin	Madras
Posted f.o.b. for light fuel adjusted for calorific value by 18600 (as on 28th May, 1969)	79.23 3.17	79.23 3.17	79.23 3.17	79.23 3.17	79.23 3.17	79.23 3.17
Less Discount at 4%	79.23 3.17	79.23 3.17	79.23 3.17	79.23 3.17	79.23 3.17	79.23 3.17
(i) Net f.o.b.	76.06	76.06	76.06	76.06	76.06	76.06
(ii) Freight as applicable to furnace oil in MR vessels at INTASCALE with AFRA index	11.00	14.04	13.72	13.61	13.79	20.11
(iii) Insurance at 0.055% on f.o.b. } As for fur-	0.04	0.04	0.04	0.04	0.04	0.04
(iv) Ocean loss at 0.11% on c.i.f. } nace oil	0.10	0.10	0.10	0.10	0.10	0.11
C.I.F.	87.20	90.24	89.92	89.81	89.99	96.32
(a) Wharfage	7.14	3.05	4.77	2.52	3.26	12.72
(c) Other compulsory landing charges } As for furnace oil	0.34	0.34	0.34	0.34	0.34	0.34
(1) Landed cost	94.68	93.63	95.03	92.67	93.59	109.38
(2) Installation						100.42
(3) Administration	9.468	9.363	9.503	9.267	9.359	10.938
(4) Distribution						10.836
(5) Profit						
(A) Ex-Company's Storage Points	104.148	120.993	104.533	101.937	102.949	120.318
						110.462
						119.196

Note.—The above prices are exclusive of Excise Duties which have to be added at the rate applicable from time to time.

STATEMENT NO. 16

Statement showing the recommended Ceiling Prices for bulk refined products and bitumens inclusive of Non-recoverable Duties but exclusive of Dealers' Retail Commission in case of Motor Spirit and High Speed Diesel Oil (vide paragraph 23.4)

Product	Unit	Kandla	Okha	Bombay	Mormu- gao	Cochin	Madras	Vizag.	Calcutta
Rupees per Unit									
1. Aviation Spirit 100/130									
Ex Storage Point	. . . . . KL	1046.09	1044.19	1046.77	1041.86	1043.84	1055.62	1048.20	1069.65
Ex International Airfield	. . . . . "	1090.69	1088.79	1091.37	1086.49	1088.44	1100.22	1092.80	1114.25
Ex Other Airfield	. . . . . "	1108.19	1106.29	1108.87	1103.96	1105.94	1117.72	1110.30	1131.75
2. Aviation Spirit 115/145									
Ex Storage Point	. . . . . KL	1070.37	1068.47	1070.89	1066.07	1068.12	1079.79	1072.39	1093.33
Ex International Airfield	. . . . . "	1114.97	1113.07	1115.49	1110.67	1112.72	1124.39	1116.99	1137.93
Ex Other Airfield	. . . . . "	1132.47	1130.57	1132.99	1128.17	1130.22	1141.89	1134.49	1155.43
3. Aviation Spirit 73									
Ex Storage Point	. . . . . KL	1006.93	1005.03	1007.54	1002.66	1004.68	1016.43	1009.01	1030.25
Ex International Airfield	. . . . . "	1051.53	1049.63	1052.14	1047.26	1049.28	1061.03	1053.61	1074.85
Ex Other Airfield	. . . . . "	1069.03	1067.13	1069.64	1064.76	1066.78	1078.53	1071.11	1092.35
4. Aviation Turbine Fuel									
Ex Storage Point	. . . . . KL	454.65	455.98	454.70	453.41	454.13	465.99	459.42	466.18
Ex International Airfield	. . . . . "	474.75	476.08	474.80	473.51	474.23	486.09	479.52	486.28
Ex Other Airfield	. . . . . "	492.25	493.58	492.30	491.01	491.73	503.59	497.02	503.78
5. Motor Spirit 93 Oct.									
Ex Storage Point	. . . . . KL	913.30	911.39	914.16	909.13	911.04	922.95	915.52	937.62
Ex Port local pumps and Ex up-country pumps	. . . . . "	924.66	922.75	925.52	920.49	922.40	934.31	926.88	948.98

6. Motor Spirit 79 Oct. Ex Port local pumps and Ex up-country pumps	.	.	.	KL	882.50	880.59	883.13	878.24	880.25	891.99	884.58	905.91
7. High Speed Diesel Oil Ex Storage Point	.	.	.	KL	680.40	682.70	680.64	679.25	680.02	692.07	685.78	692.84
Ex pumps	.	.	.	"	687.67	689.97	687.91	686.52	687.29	699.34	693.05	700.11
8. Kerosene—Superior Ex Storage Point	.	.	.	"	446.61	447.94	443.58	445.37	446.10	454.00	451.38	458.16
9. Kerosene—Inferior Ex Storage Point	.	.	.	"	281.79	283.12	278.75	280.57	281.17	289.27	286.63	293.57
10. Vaporising Oil	.	.	.	.	.	.	Sales negligible—Selling Price not estimated					
11. Light Diesel Oil Ex Storage Point	.	.	.	"	318.09	319.40	318.43	317.00	317.79	332.92	323.66	331.04
12. Furnace Oil Ex Storage Point	.	.	.	"	173.98	175.28	174.95	173.08	173.94	188.68	180.30	187.72
13. Bitumen—Straight Grade Ex Storage Point	.	.	.	MT	374.71	374.36	372.87	372.58	372.66	385.57	382.24	389.71
14. Bitumen—CB/BS Ex Storage Point	.	.	.	"	429.66	429.31	427.82	427.53	427.61	440.52	437.19	444.66
15. Bitumen—CB/RC Ex Storage Point	.	.	.	"	442.84	442.49	441.00	440.71	440.79	453.70	450.37	457.84



सत्यमेव जयते

APPENDIX I

Government of India, Ministry of Petroleum and Chemicals (now Ministry of Petroleum and Chemicals and Mines and Metals) (Department of Petroleum) Resolution No. 101(22)/68-PPD dated the 14th June, 1968 as amended by subsequent Resolutions of the same number dated the 18th November, 1968, 4th January, 1969, 16th May, 1969, 2nd August, 1969 and the 8th October, 1969.

RESOLUTION

(including amendments)

The Government of India Resolution No. 101(26)/65-PPD, dated the 1st February, 1966, sets out the pricing arrangement for petroleum products, which is in force up to 31st December, 1968, and, may be extended for such further period as may be decided upon by the Government.

2. The Government of India has now decided to set up a Committee to determine the ceiling selling prices excompanies' storage points of various petroleum products in India, to be applied from the date of termination of the existing arrangement.

3. The Committee will examine and report upon—

- (i) the determination of the ex-refinery prices of refined petroleum products, including bitumens, produced by the refineries, whether on the basis of import parity as hitherto or by the adoption of the cost of production as the basis, or in any other appropriate manner, with due regard to the Government assurances having a bearing on the subject;
- (ii) with reference to (i), the feasibility of introducing uniform prices all-India or on a regional basis;
- (iii) the determination of landed prices in respect of similar products which may be imported;
- (iv) the feasibility of making all refineries (including the inland refineries) as the pricing points and the measures to be adopted to ensure that interests of the inland refineries are not adversely affected in consequence of the adoption of such a principle, regard, in this connection, being had to the basis of pricing indigenous crude;
- (v) the determination of marketing and distribution charges and profit on the marketing operations and their allocation to the products mentioned in (i) and (iii) above, due account being taken also of the experience of the IOC in this behalf;
- (vi) the determination of the ceiling selling prices in respect of lubricating oils, greases and specialities and in particular, (a) the pricing of lube. base stocks produced/ to be produced in India either from indigenous or imported crude and (b) the pricing of Mineral Turpentine Oil;
- (vii) the determination of the rates of dealers' Commission in respect of Motor Spirit and High Speed Diesel Oil, with due regard to the representation of the Federation of the all India Petroleum Traders; and
- (viii) the determination of the rates of commission in respect of Kerosene to agents, dealers and retailers taking into account the losses/expenses incurred by them on account of leakage, handling charges, godown rent, establishment charges etc. with due regard to the views of the State Governments and other interests.

4. The Committee will ascertain and take into consideration the views of the State Governments and other interests concerned as may be found desirable.

5. The composition of the Committee will be as follows :—

- | | |
|--|----------|
| (i) Shri Shantilal H. Shah, Member, Lok Sabha, Janmabhoomi Bhavan, Ghogha Street, Fort, Bombay-1. | Chairman |
| (ii) Shri B. N. Adarkar, Deputy Governor, Reserve Bank of India, Central Office, Bombay-1. | Member |
| (iii) Dr. B. Natarajan, Deputy Director General, National Council of Applied Economic Research, Parisila Bhavan, 11, Intraprastha Estate, New Delhi-1. | Member |
| (iv) Shri N. Krishnan, Chief Cost Accounts Officer, Ministry of Finance, (Department of Expenditure), New Delhi-1. | Member |

6. Shri N. R. Law of the Ministry of Petroleum and Chemicals will serve as the full time Secretary to this Committee, with *ex-officio* status of Deputy Secretary to the Government of India. All secretariat assistance, as required by the Committee, will be provided by the Ministry of Petroleum and Chemicals.

7. The Committee's Headquarters will be at New Delhi.

8. The Committee will meet as often as may be considered necessary by the Chairman and shall submit its main report to Government by the 31st October, 1969. Supplemental report on any item not covered in the main report shall be submitted before the 31st January, 1970. For this purpose the duration of the Committee is extended till 31st January, 1970

(Sd/-) MADHAV V. RAJWADE

Joint Secretary to the Govt. of India.

ORDER

Ordered that this Resolution be communicated to all the Ministries of the Government of India, all the State Governments, Prime Minister's Secretariat, Cabinet Secretariat, Private and Military Secretaries to the President, the Planning Commission, the Comptroller & Auditor General of India, the Accountant General, Commerce, Works and Miscellaneous, and Accountant General Central Revenues.

Ordered also that the Resolution be published in the Gazette of India for general information.

(Sd/-) MADHAV V. RAJWADE

Joint Secretary to the Govt. of India.

APPENDIX I-A

D.O. No. 101(22)/68-PPD

SECRETARY
GOVERNMENT OF INDIA
MINISTRY OF PETROLEUM & CHEMICALS

New Delhi, 17th July, 1968

Dear Shri Shah,

Please refer to your D.O. letter No. 114(5)/68-OPC, dated the 10th July, 1968 regarding the need for your Committee to go into the question of imported and indigenous crude costs. We are separately considering the question of instituting a full-fledged enquiry into the price of indigenous crude; the issue, to some extent, hangs on your Committee's recommendations about product pricing. In these circumstances, it is not necessary at present to go into the pricing of indigenous crude. But we shall welcome your Committee's recommendations on the cost of imported crude.

Shri Shantilal H. Shah,
(Member, Lok Sabha).

**Chairman,
Oil Prices Committee,
Ministry of Petroleum and
Chemicals.**

New Delhi.



Yours Sincerely,
(Sd/-) P. R. NAYAK

APPENDIX II

List of the Parties to whom the Questionnaires were Issued and from whom Replies were Received.

(Vide Para 1-4)

OIL COMPANIES

1. M/s. Burmah-Shell Oil Storage & Distributing Co. of India Ltd.,
Ballard Estate,
P.B. No. 688,
BOMBAY-1.
2. M/s. Burmah-Shell Refineries Ltd.,
P.B. No. 1725,
BOMBAY.
3. M/s. Esso Standard Eastern Inc.,
17, Jamshedji Tata Road,
BOMBAY-1.
4. M/s. Esso Standard Refining Co. of India Ltd.,
P.B. No. 355,
BOMBAY-1.
5. M/s. Caltex (India) Ltd.,
8, Ballard Road,
P.B. No. 155,
BOMBAY-1.
6. M/s. Caltex Oil Refining (India) Ltd.,
P. B. No. 155,
BOMBAY-1.
7. M/s. Indian Oil Corporation Ltd.,
(Marketing Division),
254-C, Dr. Annie Besant Road,
Prabhadevi,
BOMBAY-25 (DD)
8. M/s. Indian Oil Corporation Ltd.,
(Refineries Division),
Indian Oil Bhavan,
Janpath,
NEW DELHI-1.
9. M/s. Assam Oil Co. Ltd.,
Allahabad Bank Building,
17, Parliament Street,
NEW DELHI-1.
10. M/s. Indo-Burma Petroleum Co. Ltd.
Gillanders House,
Netaji Subhas Road,
P. B. No. 383,
CALCUTTA-1.
11. M/s. Cochin Refineries Ltd.
P. B. No. 1751,
COCHIN-16 (Kerala).

12. M/s. Madras Refineries Ltd.
122-D, Mount Road,
Post Bag No. 454,
MADRAS-6.

IMPORTERS OF LUB. OILS

13. M/s. Tide Water Oil Co. (India) Ltd.
8, Clive Road,
CALCUTTA-1.
14. M/s. Victor Oil Co. (Private) Ltd.,
27, Sir R. N. Mukherjee, Road,
CALCUTTA-1.
15. M/s. Castrol Limited,
White House,
91, Walkeshwer Road,
BOMBAY-6 (WB).
16. M/s. Gulf Oil (India) Private Ltd.,
Steelcrete House,
3, Dinsha Wacha Road,
P. B. No. 1943,
BOMBAY-1.
17. M/s. Sikri & Grover,
United Bank of India Building,
Sir P. M. Road,
P. B. No. 1840,
BOMBAY-1 (ER).
- *18. M/s. H. J. Leach & Co. (P) Ltd.,
Asian Building,
Nicol Road, Ballard Estate,
BOMBAY-1.
- *19. M/s. Sankalchand G. Shah & Co. (P) Ltd.,
Hanuman Building (1st Floor),
Tambakanath,
BOMBAY-3.
- *20. M/s. Twilit Corporation (P) Ltd.,
Army Navy Building,
P. B. No. 1511, Fort,
BOMBAY-1.

CONSUMERS OF NAPHTHA

21. M/s. Fertilizer Corporation of India Ltd.,
F. 43, South Extension Part-I,
Ring Road,
NEW DELHI-3.
22. M/s. Fertilizer & Chemicals Travancore Ltd.,
P. O. Udyogmandal,
ALWAYE (Kerala).
23. Fertilizer Association of India,
85, Sunder Nagar,
NEW DELHI-11.

24. M/s. National Organic Chemical Industries Ltd.,
Sandoz House, Dr. Annie Besant Road,
Warli,
BOMBAY-18.
25. M/s. Union Carbide India Ltd.,
1, Middleton Street,
CALCUTTA-16.
26. M/s. Ahmedabad Manufacturing & Calico Printing Co. Ltd.,
(Calico Chemicals & Plastics Division),
Anik—Chembur,
BOMBAY-74 (AS).
27. M/s. Plastics Resins & Chemicals Ltd.,
15-A, Horniman Circle,
BOMBAY-1.
- *28. M/s. Shriram Vinyl & Chemicals Industries,
(Prop. The Delhi Cloth & General Mills Co. Ltd.),
Shrirampur,
KOTA (Rajsathan).
- *29. Oil & Natural Gas Commission,
(Petro-Chemical Division),
Nehru House,
4, Bahadur Shah Zafar Marg,
NEW DELHI.

MINISTRIES OF THE GOVERNMENT OF INDIA

- *30. Ministry of Defence, New Delhi.
31. Ministry of Railways (Railway Board) New Delhi.
32. Ministry of Irrigation & Power, New Delhi.
33. Ministry of Transport & Shipping,
(Transport Wing), New Delhi.
34. Ministry of Food & Agriculture, New Delhi
35. Ministry of Steel, Mines & Metals, New Delhi
36. Ministry of Industrial Development and Company Affairs, New Delhi.
37. Ministry of Petroleum & Chemicals, New Delhi.

AUTOMOBILE ASSOCIATIONS

- *38. Automobile Association of South India,
33-A, Mount Road,
P. B. No. 729,
MADRAS-6.
39. Western India Automobile Association,
Lalji Naranji Memorial Building,
76, Veer Nariman Road,
P. B. No. 211,
BOMBAY-1.

- *40. U. P. Automobile Association (H.O.),
32-A, Canning Road,
Maharima Marg,
ALLAHABAD.
- *41. Automobile Association of Eastern India (H.O.),
13, Ballygunj, Circular Road,
CALCUTTA-4.
- *42. Automobile Association of Upper India (H.O.),
14-F, Connaught Place,
NEW DELHI.
- 43. Federation of Indian Automobile Associations,
76, Veer Nariman Road,
Churchgate,
BOMBAY-1.

MANUFACTURERS ORGANISATIONS/ASSOCIATIONS/CHAMBE
COMMERCE ETC.

- *44. Cement Mfrs. Association,
Express Building, 1st Floor,
Opp. Churchgate Rly. Station,
BOMBAY-1.
- *45. All India Woollen & Textile Association,
27/29 Champa Galli, H. J. Market,
BOMBAY-2.
- *46. Alkali Mfrs. Association of India,
Navrangpura,
AHMEDABAD-9.
- 47. Indian Chemical Mfrs. Association,
India Exchange, 7th Floor,
CALCUTTA-1.
- 48. Indian Paint Association,
India Exchange (3rd Floor),
CALCUTTA-1.
- *49. Bengal Glass Mfrs. Association,
P-11, Mission Row Extension,
CALCUTTA-1.
- *50. All India Association of Industries,
Wakefield House, 11, Sprott Road,
Ballard Estate,
BOMBAY-1.
- *51. Engineering Association of India,
India Exchange,
CALCUTTA-1.
- 52. All India Manufacturers Orgn.,
Jeewan Sahakar, Sir Feroze Shah Mehta Rd.,
BOMBAY-1.
- *53. Indian Chamber of Commerce,
India Exchange,

- *54. Federation of Indian Chambers of Commerce & Industry,
Federation House, Bazar Marg,
NEW DELHI-1.
- *55. Textile Mfrs. Association,
4 Queens Road,
AMRITSAR.
- *56. Punjab, Haryana & Delhi Chamber of Commerce & Industry,
Phelps Bldg., 9-A Connaught Place,
NEW DELHI-1.
- *57. Northern India Cotton Textile Mills Associations,
Phelps Bdg., 2nd Floor,
9-A Connaught Place,
NEW DELHI-1.
- *58. North Bihar Chamber of Commerce & Industry,
MUZAFFARPUR (Bihar).
- *59. Madhya Pradesh Orgn. of Industries,
33 Malviyanagar,
BHOPAL (M.P.).
- 60. Associated Chamber of Commerce,
Royal Exchange Bldg.,
Royal Exchange Place,
Netaji Subhas Chander Bose Road,
CALCUTTA-1.
- *61. Indian Jute Mills Association,
Royal Exchange Bldg.,
Royal Exchange Place,
Netaji Subhas Chander Bose Road,
CALCUTTA-1.
- 62. Indian Cotton Mills Federation,
Elphinstone Building,
Veer Nariman Road,
BOMBAY.
- *63. All India Motor Union's Congress,
16-A Asaf Ali Road,
NEW DELHI-1.

STATE GOVERNMENTS

- 64. Government of Uttar Pradesh,
LUCKNOW.
- 65. Government of Bihar,
PATNA.
- 66. Government of Orissa,
BHUBNESHWAR.
- 67. Government of West Bengal,
CALCUTTA.
- 68. Government of Assam,
SHILLONG.

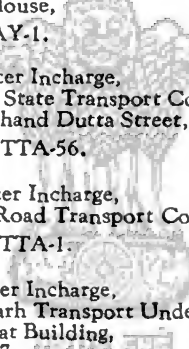
69. Government of Nagaland,
KOHIMA.
70. Government of Madhya Pradesh,
BHOPAL.
71. Government of Andhra Pradesh,
HYDERABAD.
72. Government of Tamil Nadu,
MADRAS.
73. Government of Mysore,
BANGALORE.
74. Government of Kerala,
TRIVENDRUM,
75. Government of Maharashtra,
BOMBAY.
- *76. Government of Rajasthan,
JAIPUR.
77. Government of Gujarat,
AHMEDABAD,
78. Government of Punjab,
CHANDIGARH.
- *79. Government of Jammu & Kashmir,
SHRINAGAR.
80. Delhi Administration,
DELHI.
81. Goa, Daman and Diu,
Union Territories,
PANJIM (Goa).
- *82. Pondicherry Administration,
PONDICHERRY.
83. Union Territory of Andaman, Nicobar Island
PORT BLAIR.
- *84. Union Territory of Lacadive,
Amindive Island,
KARAVATTI (Kerala).
- *85. Himachal Pradesh Administration,
SIMLA.
- *86. Manipur Administration,
IMPHAL.
87. Tripura Administration,
AGARTALA.
- *88. The Adviser to the Governor,
of North East Frontier Agency,
SHILLONG.

- 89. Government of Haryana,
CHANDIGARH.
- 90. Union Territory of Chandigarh,
CHANDIGARH.

STATE TRANSPORT DEPARTMENTS

- *91. Director of Transport Maharashtra,
BOMBAY.
- *92. Director of Transport Gujarat,
AHMEDABAD.
- *93. Director of Transport, Rajasthan,
JAIPUR.
- *94. Transport Commissioner, U.P.,
LUCKNOW.
- *95. State Transport Commissioner, Bihar,
PATNA.
- *96. Provincial Transport Controller, Punjab,
CHANDIGARH.
- *97. Provincial Transport Controller, Haryana,
CHANDIGARH.
- *98. Director of Transport, Himachal Pradesh,
SIMLA.
- *99. Commissioner of Transport, Assam,
SHILLONG.
- *100. Commissioner of Transport, Jammu & Kashmir,
SRINAGAR.
- *101. State Transport Commissioner, West Bengal,
CALCUTTA.
- *102. Commissioner of Transport, Madhya Pradesh,
BHOPAL.
- *103. State Transport Commissioner, Kerala,
TRIVANDRUM.
- *104. State Transport Commissioner, Orissa,
CUTTACK.
- *105. Transport Commissioner, Andhra Pradesh,
HYDERABAD.
- *106. State Transport Commissioner, Tamil Nadu,
MADRAS.
- *107. State Transport Commissioner, Mysore,
BANGALORE.

STATE TRANSPORT UNDERTAKINGS

- *108. The Officer Incharge,
Ahmedabad Municipal Transport Service,
AHMEDABAD-17.
- *109. The Officer Incharge,
Andhra Pradesh State Road Transport Corpn.,
Mushirabad,
HYDERABAD-20.
- *110. The Officer Incharge,
Assam State Transport,
SHILLONG.
- *111. The Officer Incharge,
Bihar State Road Transport Corpn.,
Head Office, Anisabad,
PATNA-1.
- *112. The Officer Incharge,
Bombay Electric Supply & Transport
Undertaking,
BEST House,
BOMBAY-1.
- *113. The Officer Incharge,
Calcutta State Transport Corpn.
14 Tarachand Dutta Street,
CALCUTTA-56.
- *114. The Officer Incharge,
Central Road Transport Corpn. Ltd.
CALCUTTA-1.
- *115. The Officer Incharge,
Chandigarh Transport Undertaking,
Secretariat Building,
Sector 17, 
CHANDIGARH.
- 116. The Officer Incharge,
Delhi Transport Undertaking,
NEW-DELHI-1.
- 117. The Officer Incharge,
Gujarat State Road Transport Corporation,
Vahan Vyavahar Bhavan,
AHMEDABAD-1.
- *118. The Officer Incharge,
Himachal Government Transport,
"WYNSTAY",
SIMLA-1.
- *119. The Officer Incharge,
Jammu & Kashmir Govt.
Transport Undertaking,
SRINAGAR.
- *120. The Officer Incharge,
Kerala State Road Transport.,
TRIVANDRUM.

- *121. The Officer Incharge,
Kolhapur Municipal Transport,
Kolhapur (MAHARASHTRA).
- *122. The Officer Incharge,
Madhya Pradesh State Road Transport Corpn.,
BHOPAL.
- *123. The Officer Incharge,
Madras State Transport Deptt.,
Transport House,
MADRAS-2.
- *124. The Officer Incharge,
Maharashtra State Road Transport Corporation,
BOMBAY-8.
- *125. The Officer Incharge,
Mandi Kulu Road Transport Corpn.,
MANDI (HIMACHAL PRADESH).
- *126. The Officer Incharge,
Manipur State Transport Deptt.,
IMPHAL.
- 127. The Officer Incharge,
Mysore State Road Transport Corpn.,
BANGALORE-25.
- *128. The Officer Incharge,
North Bengal State Transport Corporation,
COOCH-BEHAR.
- *129. The Officer Incharge,
Orissa Road Transport Co. Ltd.,
College Lane, BEHRAMPUR,
Distt. GANJAM (ORISSA).
- *130. The Officer Incharge,
Orissa State Road Transport Corpn.,
CUTTACK.
- *131. The Officer Incharge,
PEPSU Road Transport
Corporation,
PATIALA.
- *132. The Officer Incharge,
Poona Municipal Transport,
POONA-2.
- *133. The Officer Incharge,
Provincial Transport Controller,
Punjab, Sector 17,
CHNADIGARH.
- *134. The Provincial Transport Controller & Director
of Tourism, Haryana,
CHANDIGARH.
- *135. The Officer Incharge,
Rajasthan State Road Transport Corporation,
JAIPUR.

136. The Officer Incharge,
Sholpur Municipal Transport Undertaking.
Budhawar Peth,
SHOLAPUR-2.
- *137. The State Transport Commissioner,
U.P. Roadways,
LUCKNOW (U.P.).
- *138. The Officer Incharge,
Durgapur State Transport Service,
DURGAPUR (DISTT. BÚRDWAN).

PETROLEUM TRADERS

139. Federation of All-India Petroleum
Traders,
16, Rajender Nath Mukherjee, Road,
CALCUTTA-1.

*Those marked with asterisk did not reply.



सत्यमेव जयते

APPENDIX III

List of persons who attended discussions with the Oil Prices Committee (Vide Para 1.5)

AT DIGBOI

Dr. B. K. Burman Shri R. Ray Chaudhuri Mr. J. D. Watt.	} Representing Assam Oil Co. Ltd.	13-1-69
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AT GAUHATI

Shri Basudev Somani Shri N. M. Bhandari Shri H. S. Kumbhat	} Representing M/s. Assam Hardboard Ltd., Gauhati.	9-1-69
Shri H. L. Aggarwal	Representing M/s. Indian Carbon Ltd., Gauhati.	9-1-69
Shri Dhireswar Kalita, M.P.	Representing the cases of M/s. Assam Hardboard Ltd. and M/s. India Carbon Ltd.	9-1-69

In attendance

Shri G. C. Phukan, Finance Secretary, Govt. of Assam		9-1-69
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AT SHILLONG

Shri K. P. Tripathi Shri B. Sarma Shri D. Das Shri B. S. Sarao Shri G. C. Phukan Shri M. Ahmad Shri A. Adhikari Shri S. K. Bhattacharjee	} Representing The Government of Assam	10-1-69
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AT COCHIN

Shri C. R. Pattabhi Raman Shri J. G. Huddleston Shri P. T. Venugopal Mr. H. H. Lee	} Representing M/s Cochin Refineries Ltd.	11-4-69
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AT NEW DELHI

Mr. R. O. Jackson Shri K. N. Khanna Shri R. B. Aibara	} Representing M/s Burmah-Shell Oil Storage & Distributing Co. of India Ltd. and M/s Burmah-Shell Refineries Ltd.	21-4-69
Mr. A. G. NEFF Mr. P. H. Sommer Shri P. N. Sardeesai Shri N. R. Vasvani Shri M. R. Hosangady	} Representing M/s Esso Standard Eastern Inc. and M/s. Esso Standard Refining Co. of India Ltd.	22-4-69
Shri H. R. Bery Shri S. G. Subramanian Mr. V. P. Ryan Shri R. Sahay Mr. K. C. Joseph	} Representing M/s. Caltex India Ltd., and M/s. Caltex Oil Refining (India) Ltd.	23-4-69

Shri N. N. Kashyap
Maj. Gen. Sardanand Singh
Shri P. K. Rau
Shri S. D. Bharmbri
Shri R. Gurumoothy
Shri V. Balkrishnan
Shri K. L. Goel
Shri B. M. Prabhu

Representing M/s. Indian Oil Corporation
Ltd. Marketing as well as Refi-
neries Division.

15-5-69

AT MADRAS

Shri M. Rama Brahman
Mr. O. Stephanian
Shri N. J. Mathew
Shri N. S. Rao

Representing M/s. Madras Refineries Ltd.

26-5-69

AT AHMEDABAD

Shri L. R. Dalal
Shri B. J. Patel
Shri J. H. Mehta
Shri S. M. Ghosh
Shri P. V. Swaminathan
Shri K. B. Kanekar

Representing Gujarat State Government.

30-5-69

Shri S. T. Raja

Representing Gujarat State Electricity Board.

30-5-69

AT NEW DELHI

Shri B. Mukerji
Shri Madhav Rajwade
Shri A. P. Verma
Shri K. G. Paranjpe
Shri I. M. Sahai
Shri B. S. S. Rao

Representing Ministry of Petroleum & Che-
micals and Mines & Metals
(Department of Petroleum).

6-6-69
and
20-6-69

Shri A. R. Damodaran
Shri Sachin Dutt
Shri Prosanto Ghosh
Shri Ram Makin

Representing Federation of All-India Petro-
leum Traders, Calcutta.

1-7-69

Shri B. J. Patel
Shri S. M. Ghosh
Shri P. V. Swaminathan

Representing Gujarat State Govt.

28-7-69

Shri S. T. Raja

Representing Gujarat State Electricity Board

28-7-69